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FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

TUESDAY, FEBRUARY 29, 1972

WEDNESDAY, MARCH 1, 1972

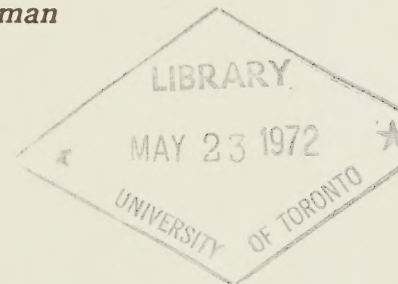
Respecting

THE PACIFIC AREA

FINAL REPORT OF THE COMMITTEE

Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

Index of the Committee's Proceedings
during
Third Session of Twenty-eighth Parliament
concerning
THE PACIFIC REGION



Order of Reference

Extract from the Minutes of the Proceedings of the Senate,
Tuesday, February 22, 1972:

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the examination of the Pacific area in the preceding session be referred to the Committee.

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Standing
Senate Committee
on
FOREIGN AFFAIRS

Chairman:
The Honourable John B. Aird, Q.C.
Deputy Chairman:
The Honourable Allister Grosart

Minutes of Proceedings



Minutes of Proceedings

Tuesday, February 29, 1972.

(1)

Pursuant to notice the Standing Senate Committee on Foreign Affairs met, *in camera*, at 3.05 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Connolly (*Ottawa West*), Fergusson, Grosart, Lafond, Lapointe, Macnaughton, McElman, McNamara and Yuzyk. (11)

In attendance: Mr. Peter Dobell, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mr. Bernard Wood, Special Assistant to the Committee.

On Motion of Senator Macnaughton, it was *RESOLVED*: that 800 copies in English and 300 copies in French of the Committee's proceedings be printed.

On Motion of Senator Fergusson, it was *RESOLVED*: That the Steering Committee be authorized, subject to confirmation by the Committee, to negotiate contracts and agreements for goods and services reasonably and necessarily required for the purposes of the Committee.

On Motion of Senator Belisle, it was *RESOLVED*: That the Chairman report to the Senate that this Committee has expended, during the past session, while studying Canada-Pacific Relations, the sum of \$72,358.31 and that expenses for printing not yet accounted for will amount to approximately \$800.00.

On Motion of Senator Lafond, it was *RESOLVED*: That the Chairman submit to the Senate Committee on Internal Economy and Contingent Accounts a budget of expenses to be incurred, during the present session, in connection with this Committee's hearings respecting the Pacific Area (\$15,000).

The Committee proceeded to the consideration of a "Draft Report" respecting Canadian relations with countries of the Pacific Area.

At 4.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Wednesday, March 1, 1972.

(2)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met, *in camera*, at 11.35 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Grosart, Heath, Lafond, Lapointe and McNamara. (8)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee resumed consideration of its "Draft Report". The Report was amended and on Motion of Senator Lafond, *RESOLVED*: That the said Report be adopted as the Committee's "Report to the Senate" and that the Chairman present the same to the Senate as this Committee's *Report on Canadian Relations with the countries of the Pacific Region*.

On Motion of Senator Cameron, *ORDERED*: That the Committee print in booklet form 2,000 bilingual copies of its Report to the Senate respecting the Pacific Region; and also 1,000 copies in bilingual booklet form of the "Highlights" of the aforementioned Report.

At 1.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Note: A topical index of the Committees printed proceedings, of the past session, is appended to this issue, immediately following the Committee's Report to the Senate.



March, 1972

Report
on
**CANADIAN
RELATIONS**
with the countries of the
**PACIFIC
REGION**

The
Standing
Senate Committee
on
FOREIGN AFFAIRS

Chairman:

The Honourable John B. Aird, Q.C.

Deputy Chairman:

The Honourable Allister Grosart

MEMBERSHIP OF COMMITTEE
(As of March 1, 1972)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Belisle	Haig	McNamara
Cameron	Heath	Nichol
Carter	Lafond	O'Leary
Choquette	Laird	Quart
Connolly (<i>Ottawa West</i>)	Lang	Rattenbury
Croll	Lapointe	Sparrow
Eudes	Macnaughton	Sullivan
Fergusson	McElman	White
Gouin	McLean	Yuzyk—(30).

Ex Officio Members: Flynn and Martin

(Quorum 7)

Note: The Honourable Senators Hastings, Pearson and Robichaud served on the Committee during the Third Session of the 28th Parliament.

ORDER OF REFERENCE

(Third Session—28th Parliament (1970-72))

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—

Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

* * *

(Fourth Session—28th Parliament (1972))

Extract from the Minutes of the Proceedings of the Senate, Tuesday, February 22, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating

to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the examination of the Pacific area in the preceding session be referred to the Committee.

The question being put on the motion, it was—
Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

TABLE OF CONTENTS

	Pages
<i>Introduction</i>	1
 I <i>The Basis for Involvement</i>	
A. Awareness and Understanding.....	3
Language training and orientation.....	4
Centres for Asian and Pacific Studies.....	5
Public Information.....	6
Sports and Cultural exchanges.....	7
Scientific cooperation.....	8
B. Coordination.....	9
C. Representation.....	10
 II <i>Canada's Economic Interests</i>	
A. The General Picture.....	13
Japan.....	13
China.....	22
Australia and New Zealand.....	23
Other countries.....	24
B. New Issues.....	28
The Canadian approach.....	28
 III <i>Canada's Interest in Development Cooperation</i>	
A. The Rationale.....	33
B. Regional Channels.....	34
C. Country Programmes.....	35
D. Coordination and Cooperation.....	36
E. Trade, Investment and Development.....	37
F. The Work of Non-Governmental Agencies.....	38

IV	<i>Canada's Political and Security Interests</i>	39
A.	Regional Challenges and Canadian Capabilities.....	41
B.	Particular Roles.....	41
	Jurisdictional, coastal and territorial protection.....	41
	Military cooperation and contacts.....	42
	Military training assistance.....	42
	Peacekeeping and truce supervisory roles.....	42
	Highlights of Conclusions and Recommendations.....	45
	Appendix: List of Witnesses Heard by the Committee..	53

INTRODUCTION

1. The present report, the Committee's second for the twenty-eight Parliament, is closely related to the process of foreign policy review undertaken by the Government between 1968 and 1970. The product of that review, the series of six papers under the general title of *Foreign Policy for Canadians*, was tabled in the House of Commons on 25 June, 1970. On 8 October 1970, one of the papers, entitled *Pacific*, was referred by the Senate to this Committee.

2. The Pacific area, as defined in the Government's Policy Paper, includes more than twenty different countries and territories, encompassing well over one-third of the world's total population. Around the thousands of miles of the western Pacific rim is found impressive diversity in cultural, political and economic terms, as indicated by the following list: Japan, China, Indonesia, The Philippines, Australia, New Zealand, Malaysia, Singapore, North and South Vietnam, North and South Korea, Cambodia, Laos, Thailand, Burma, Hong Kong, Taiwan and the countries and territories of the South Pacific.

3. Clearly, Canada cannot attempt to adopt uniform general policies toward this heterogeneous group. The Committee has found, however, that an overall attitude and approach of increased Canadian interest and involvement in the whole Pacific region is not only possible but essential. The fact that Canada is a Pacific nation has long been viewed simply as a kind of geographical accident, with the world's largest ocean serving more as a barrier than a bond. With the revolutionary growth of communications, transport and global inter-dependence, however, it can now become vital reality. As the Policy Paper says, "In Canada's Pacific outlook, distance and remoteness are no longer synonymous." Yet it is important to recognize that most of the great movements of history which are taking place in the Pacific region are doing so with little significant involvement by Canada. It is probably only in the economic field, that Canada can be properly called "a Pacific power".

4. Any realistic survey of the present Canadian involvement in the Pacific must therefore give first attention to the economic sphere. This has been the field of most exciting and spectacular growth—with a doubling of Canada's Pacific trade between 1965 and 1970 and until 1971 a large surplus balance in Canada's favour. The direct economic benefits to Canadians are immense, and are reinforced by the healthy diversification of Canada's overall economic relationships.

5. The very rapid expansion of profitable economic relations in the Pacific region, however, has sometimes obscured a number of other vital concerns for Canada. It is probable that Canada cannot long sustain relations with its Pacific neighbors solely on the basis of trade, particularly trade which is in its own favour. Commercial considerations alone require a concern for reciprocal advantage, and

a widening knowledge and understanding of the partner-countries involved. The emergence of any broader sense of community involves the acceptance of wider responsibilities for the general well-being of the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security, and in cooperative action to share the benefits of economic development with the disadvantaged countries. As a result, Canada faces a series of new decisions as to the directions of its Pacific policies.

6. The Policy Paper supplied some answers to these questions. In the period since this document was referred to it by the Senate on 8 October, 1970, the Committee has had the opportunity to observe the policies selected in practice. As the Policy Paper states, "For Canada, as for many of the smaller nations of the Pacific, the problem for the future will be to define constructive policies and interrelationships realistically tied to individual national capacities, yet effectively aimed at common Pacific objectives." (p. 11). This Report is concerned with elaborating the real meaning and potential of Canadian membership in the Pacific community of nations.

I THE BASIS FOR INVOLVEMENT

A. Awareness and Understanding

7. Canada's involvement in Pacific affairs pre-dated Confederation and increased throughout the late nineteenth and early twentieth centuries. "Until recently, however," as one of this Committee's witnesses has written, "the Pacific region did not hold a prominent place in the consciousness of Canadians." General interest in Pacific affairs, Dr. Kavic has stressed, was uneven, superficial and dealt too often in stereotypes. As he says, "The natural consequence of these attitudes was the presumption that Canada had no direct interest or stake in the Pacific, and the perpetuation of an increasingly obsolete image of the area that was a compound of ignorance, prejudice and misinformation."

8. In recent years there has been improvement, but the deficiencies in Canadian understanding of the Pacific cannot be remedied overnight, or by half measures. It must be recognized that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Even simple communication is more difficult. European languages are little used today in many of the Pacific countries. The unfamiliar and difficult languages of the region have deterred most Canadian students even when facilities were available. Furthermore, Western perceptions of the "Far East", which have always been shrouded in ignorance and myths, have failed to keep pace with the tremendous changes in progress, particularly in contemporary China and Japan. Canada, moreover has fallen behind most other developed countries of the Pacific (and a number of the less-developed) in generating a regional consciousness and in acquiring the necessary knowledge and expertise in Pacific affairs.

9. Even in business relationships, where Canadian ties are now most extensive, this lack of background familiarity represents a real and continuing problem. Mr. Robert Bonner outlined its dimensions in his testimony:

. . . when you seek to do business with Japan or when you seek to do business in Malaysia or the countries of Oceania, there is an immediate cultural lack of familiarity which represents a very real and practical psychological barrier against the otherwise commonplace task of doing business. In other words, you have to spend a lot of time finding your way in

In other words, the approach to the Pacific is not to be viewed as being other than a complicated question of culture, of language and of unfamiliar history and institutions, and it would be unwise to overlook these facts as an obstacle to easy penetration of the Pacific excluding the western hemisphere countries of the Pacific and excluding, of course, Australia and New Zealand. (p. 3:6)

10. It is clear that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region will be a vital pre-requisite to broader and more fruitful Canadian involvement. In this effort, federal authorities can provide encouragement and example, but full participation will be required from

all the sectors concerned: governments at all levels, the academic community, business and industry, and the communications media.

11. The Policy Paper contained a number of suggestions for action in this field, especially directed to the projection of Canada to these countries, and some progress has been made. The Committee has concluded, however, that a much broader and more reciprocal range of initiatives is required, and these are outlined below.

Language Training and Orientation

12. Facilities and financing for training in the difficult languages of the region, particularly Chinese and Japanese, are important elements in an active Canadian presence in the Pacific. They are now badly lacking, and Canadians dealing with the area are often dependent on non-Canadian middlemen. In the new conditions which prevail in international commerce this is an unsatisfactory situation.

13. It is natural to assume that improved language training and orientation facilities should be built upon existing resources in universities. The Committee feels strongly, however, that an expansion of the traditional type of university language instruction will not go far enough to meet the present national need. The requirement for more academic specialists on the Pacific area is only one of several equally-pressing priorities.

14. The Committee has been disappointed to learn (from an answer in the House of Commons on 3rd May, 1971) that the Government does not have under consideration financial assistance either to universities or to students to promote studies of Pacific area languages. Because of its importance to the whole new Pacific policy, such a programme should be started as soon as possible. The Committee is prepared to suggest a number of specific and practical guidelines.

15. Concentrating initially on a small number of existing centres of excellence (perhaps one each in British Columbia, Ontario and Quebec), the Government should make available special grants to expand the teaching of Chinese and Japanese, and perhaps one additional Pacific language at each centre. The grants could be distributed in roughly equal proportions between salaries for instructors (for supplementary language study and intensive summer programmes), and fellowships for students (from all regions) both for extended graduate programmes and field work and intensive summer courses. An annual grant of \$50,000 to each of three centres could quickly transform the national situation with regard to the availability of individuals proficient in these languages.

16. In addition to recruiting actively from this growing pool of skilled personnel—with the understanding that a period of in-job training may be required—government departments (both federal and provincial) and industry could use the facilities directly for the training of selected staff members. Because of their special needs, however, the government and business sectors will have to take urgent short-term measures to fill the present gaps. It should be a more standard and extensive practice for Federal Government departments concerned to post

officials in China and Japan with about half the normal load of duties to allow them to undertake intensive language training. It would probably be advantageous to maintain standardized arrangements (i.e. long-term contracts with tutors or schools) to keep up the momentum of this scheme. The Committee also believes that businesses operating in these areas would soon reap a considerable return from a similar programme of half-duty postings (although business trainees in Chinese would almost certainly have to be based in Hong Kong rather than in China proper). The Committee recommends that the government as soon as possible establish regular, in-area intensive language training arrangements for both Japanese and Chinese and offer a number of places in these facilities to business representatives and provincial officials.

17. Another general measure to up-grade overall Canadian capabilities in these languages would be to utilize more effectively the skills derived from the diverse national origins of Canadians. Even at the time of the 1961 census there were nearly 60,000 Canadians of Chinese origin and almost 30,000 of Japanese origin. Even in the second and third generations of residence considerable language skills remain. Both the government and business sectors concerned with these areas should be acutely aware of these substantial pools of language skills and cultural background.

Centres for Asian and Pacific Studies

18. Closely related to training in Pacific languages is the need for more study in depth of all aspects of the great civilizations of the region. A number of universities have developed local pools of expertise, * and in 1969 the scholars concerned established a national society of Asian Studies. In the Policy Paper the Government announced its intention to "appoint a small committee to examine, in consultation with the provinces and university authorities, ways by which it might make some contribution to strengthening teaching, library, research and publication facilities, with emphasis on contemporary Japan and China". There appears not to have been any subsequent action on this front.

19. The Committee considers it essential that there be more national cooperation, in order to better utilize existing resources and strengthen those where deficiencies exist. There should be in Canada several well-stocked university libraries on Pacific affairs. As a first step, it would seem advisable for the universities concerned to agree on different areas of specialization in their library holdings on Pacific affairs. This would reduce unnecessary duplication and permit the building of truly excellent collections on a national scale at an acceptable cost. Once specializations have been agreed upon, an up-to-date national inventory and inter-library loan facilities would allow all regions to draw on these specialized collections. Once agreements are made for the rationalization of national library holding on Pacific affairs, the Committee recommends that the Government

* The national capability in the fields of international and area studies has been analyzed in a survey commissioned by the Department of External Affairs and the Canadian Institute of International Affairs. This report, by Arthur R. Kilgour, is entitled "Resources for the Study of International Relations in Canadian Universities" published in 1969; updated December, 1970.

consider making up-grading grants to help bring the libraries up to the first level in their specialized fields.

20. The Federal Government could provide much-needed stimulus to Pacific area studies at relatively little cost by endowing a small number of senior and post-doctoral research fellowships at Canadian universities. These would broaden the base of Pacific studies and also keep qualified young specialists in Canada to fill faculty vacancies as they may arise. Six fellowships (three senior and three post-doctoral), would cost approximately \$60,000 annually. The Committee believes that such an expenditure could produce substantial results in a short period.

21. There should be, for non-Commonwealth Pacific countries, the equivalent of the Commonwealth Scholarship and Fellowship Plan to provide for scholars to move between Canada and these countries. Even a small number of scholarships (perhaps ten annually) for Canadians would in a very few years substantially augment the pool of knowledgeable Canadians. At the same time, the scholarships in Canada for Pacific area students (perhaps fifteen each year) would complement the present opportunities under the National Research Council (NRC) and the Canadian International Development Agency (CIDA) auspices. Such a scheme is mentioned in the Policy Paper (on page 23) but only in the context of incoming students from Pacific countries. Clearly a two-way flow would be most beneficial. On a formula similar to the Commonwealth Plan the total cost of such a scheme to Canada would be on the order of \$60,000 annually.

22. The strengthened expertise of the academic community must also be utilized in a more directly beneficial manner from the national point of view. High priority should be given to the kind of "continuing" educational activity mentioned by Dr. John Howes in his testimony. The Committee was impressed by his example of "short seminars or courses for people who are already involved in professions or business" dealing with the Pacific.

23. Another of Dr. Howes's suggestions which might be of considerable benefit, with relatively little cost, is for the compilation of a national directory of Canadian institutions and individuals with competence in different aspects of Pacific affairs. Circulating among the official, business, and academic sectors, such a directory would help to pool national talent and expertise and make fuller use of the resources available. Similarly, it is to be hoped that action will soon be forthcoming on the Government's plans for programmes of rotation and secondment among serving Foreign Service officers and academics and graduate students. In the Committee's view, this is a promising experimental scheme. Such short-term personnel, with special linguistic or other skills, could make a valuable contribution to the missions concerned while supplementing their own field experience.

Public Information

24. Full Canadian participation in the Pacific community cannot be achieved by a select few, while the vast majority of Canadians remain largely uninformed and exposed only to "spotty and crisis-oriented" media coverage of regional affairs.

The Policy Paper referred to the possibilities for "dramatically expanding" the Canadian capacity for reciprocal information exchanges with Pacific countries. Certainly, agencies such as Information Canada, the Canadian Broadcasting Corporation and the National Film Board should be encouraged to play an expanding role in such exchanges (as outlined on page 22 of the Policy Paper) but major initiatives must also come from the private media.

25. The volume and quality of Canadian media coverage has perceptibly improved in the past two years, partially as a result of visits by Canadian leaders, the exchange of diplomatic relations with the People's Republic of China, and the opening up of that country to Western journalists and travellers. It will be important to sustain this interest beyond the initial excitement of "discovery" and steadily deepen the public awareness and understanding of Pacific affairs. While there are short-term limits on the capacity of Canadian media organizations to maintain their own coverage, the Committee is convinced of the need for a growing Canadian perspective in in-depth news from the Pacific. The Special Senate Committee on the Mass Media discussed in its report the general problem of "Canadian content" in foreign news coverage (see especially Vol. 1, pages 232-235). The Committee would like to see the Canadian media give special priority to reducing their reliance on foreign news services in their Pacific coverage.

Sports and Cultural Exchanges

26. The Policy Paper (on page 23) mentions a number of plans for stepping-up exchanges of these kinds. One that is not mentioned, however, is reciprocal visits by sporting teams. Such visits have been shown, by recent experience, (including the Olympic games in Japan), to involve large numbers in friendly people-to-people contact, in spite of linguistic, cultural or political barriers. Support of sports exchanges with Pacific countries by the Canadian Government could be a highly effective means of increasing public interest and awareness.

27. Canadian participation, (with Japan, the U.S., Australia, and New Zealand), in the Pacific Games provides for regional competition in track and field events. Since Canada is to be the host country for these Games in 1973, they can be expected to have a particular impact. The Commonwealth Games, of course, also involve competition with a number of Pacific countries. Bilateral sports exchanges with Pacific countries have been growing steadily, sometimes at a provincial or club level. Some of the most prominent sports include swimming, rugby, soccer, field hockey, basketball, and volleyball. Table tennis has, of course, opened up the possibility of broadening athletic contacts with China, tours by badminton teams have followed and water sports may be the next area of competition with that country. The countries most involved in these bilateral sports exchanges in the past have been Australia, New Zealand, and Japan. It must be recognized that Canada's main sports are not widely shared by Pacific countries and that this fact places a definite limit on the exchanges which may develop. It is noteworthy, however, that hockey is of increasing interest in Japan and possibly also in China. With close co-ordination between the Departments of External Affairs and National Health and Welfare and private Canadian sports

bodies it should be possible to continue widening the scope of these exchanges, (both the number of countries and the number of sports involved).

28. In addition to sports and educational exchanges, there are a large number of other cultural contacts which can complement official and commercial dealings in expanding Canada's relationships with Pacific countries. In these fields, federal policy is only one element in the national effort, and a concerted federal government programme will require close co-ordination among a number of departments and agencies.

29. Australia and New Zealand, which have fairly well-developed educational contacts with Canada, have surprisingly few exchanges in the cultural fields. Expanded contacts with Japan, China and the Francophone states of Indochina are also possible and very desirable. In view of the importance of Japan, and its traditional unfamiliarity to Canadians, the establishment of a Canadian cultural and information centre in Tokyo might provide a necessary base for expanding cultural contacts. In the case of China, formal agreement may be required to ensure the reciprocity of cultural exchanges. The establishment of cultural centres may also be justified in Australia and, eventually, in Indochina.

30. The specific type of exchanges desired will differ from country to country. In general, however, there appear to be immediate opportunities in the following fields: financial and other assistance for exchange of musical, dance, and theatrical groups; encouragement of exhibitions of graphic arts, films and books; encouragement of co-operation and mutual assistance in cinema, radio and television, and the exploration of possible co-production arrangements in these fields; financial and other support of cultural research projects in such fields as anthropology, archaeology or ethnology.

Scientific Cooperation

31. With respect to scientific and technological cooperation, the Policy Paper, recognizing the growing importance of essentially transnational problems, envisages generally closer ties with the Pacific countries. The Committee emphatically favours such ties, especially in view of Japan's leading role in technological innovation, and the many common concerns of Canada and Australia in scientific and technical fields. Encouraging examples of this kind of co-operation are the September, 1971, Agreement between Canada and Japan to exchange technical information and work together on nuclear reactors, and the visit of an important Canadian Science and Technology Mission to Japan in March 1972.

32. The Committee wishes to emphasize that this kind of cooperation will become increasingly essential in international relations, and it seems clear that expert scientific and technological liaison and representation should be among the priority roles of the Canadian foreign service, particularly as it progresses toward greater integration.

B. Coordination

33.

If we are truly resolved, as a nation, to enter fully into the life and future of the huge Pacific community, . . . we must do so by a unified national effort. It is difficult for close-knit, nationalistic societies of the region, such as Japan, to understand the Canadian penchant for speaking abroad in a multitude of voices, some of which, on occasion, create a discord. (11:23)

34. The above quotation, from the testimony of the Canada-Japan Trade Council, succinctly summarizes perhaps the main theme emerging from the Committee's whole inquiry. Different witnesses repeatedly stressed that even in economic relations, where Canada's involvement is broad and well-established, this country suffers from the diffuse and uncoordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a unified national presence and pursue consistent and coherent national policies.

35. In part this need derives from the fact that the Pacific remains to most Canadians, a kind of "Terra Incognita". When venturing out into what the Prime Minister has called, "the New West" it stands to reason that Canadian explorers—official, commercial, or academic—should share the benefits of their particular knowledge and experience. It is also a simple fact, as the witnesses have stressed, that in dealing with the two giants of the region, China and Japan, (and increasingly with other countries), political, commercial and other relationships are inseparably mingled.

36. Clearly such an environment demands re-thinking and new approaches on the part of Canadians. The trade mission was cited as an example of the kind of technique required for successful collaboration between government and industry, and it is notable that the mission to Japan in January, 1972, was the largest economic mission that Canada has ever sent anywhere in the world. As Mr. Robert Bonner pointed out, however, the trade mission "is only the first thrust of the effort". Continued collaboration is required in the "follow-up" stages. While there has been no evidence to suggest that Government facilities are generally lacking in this regard, it must be recognized that they will face rapidly-increasing demands in coming years. "Facilities", however, are less the issue than "attitudes". Patterns of cooperation between industry and government are still hampered by mutual lack of knowledge and often suspicion. A related problem is the lack of communication and cooperation among Canadian businesses themselves. Testimony indicated that these problems lead to a costly "fragmentation of effort" in Canada's economic relations with Pacific countries. Specific references and a discussion of remedial possibilities will be found in a later chapter on "Canada's Economic Interests".

37. Similar gaps appear to exist between academics concerned with the Pacific and businesses and government departments sharing that interest. Once again, there are probably deep-rooted prejudices involved on both sides, but they clearly must be overcome. There should, for example, be continuing institutional contact between the Canadian Society of Asian Studies and the business groups concerned

with Pacific trade and investment. Among the many mutual benefits might be: the development of various types of "continuing education" programmes for executives; better information regarding opportunities for, and the availability of, graduates skilled in Pacific languages and Pacific area studies; the sponsorship of scholarships, fellowships, conferences and research grants; the sponsorship and distribution of Canadian publications on Pacific affairs.

38. One further possibility for evolving a more concerted national approach to Pacific involvement was opened up in the main Policy Paper, *Foreign Policy for Canadians*. It stated that a subcommittee of the Interdepartmental Committee on External Relations "will . . . concern itself with the formulation of programmes of rotation and secondment between the foreign service, on the one hand, and government departments, the business world, the academic community, on the other." (p. 40). According to a return tabled in the House of Commons on May 3, 1971, the Government was still "considering" such programmes. This Committee believes that this kind of rotation might be extremely valuable to all concerned in exposing individuals to the perspectives and problems of other sectors. These programmes should therefore be tested in practice as quickly as possible.

C. Representation

39. A number of recommendations in the two preceding sections have related to the strengthened representation of Canada and Canadian interests in the Pacific region. This factor will obviously have an important bearing on the success of all Canadian policies of increased involvement. Canadian missions abroad can play a vital role in channelling information, expediting people-to-people contact and thereby augmenting Canadian awareness and projecting Canada's image in their host countries. The missions will also have a major share in the assertion of a more concerted national presence and better co-ordinated national policies. The plans for integration of the foreign service should assist greatly in the achievement of the second goal, especially if the plans for wider rotation of personnel are also put into effect.

40. As the Policy Paper pointed out, "The expectation of rapidly increasing commercial and other relations with Pacific countries over the next few years suggest that Canada consider extending its presence by the opening of additional offices in the area". (p. 19). It later added, "The Government will . . . consider, as soon as financial resources are available, the extension of diplomatic links by means of dual accreditation and perhaps additional resident offices in those countries offering adequate scope for increased trade, investment, development assistance and useful political and cultural contacts."

41. The Committee is aware of the financial constraints involved in these decisions, since the Government has apparently been unable to act on the recommendation it made in June, 1970, for the establishment of a separate Canadian mission in Barbados. Nevertheless, the need for strengthened representational facilities in the Pacific is pressing. Because of the breadth and

importance of Canadian interests concerned, prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

42. It must also be stressed, however, that the strengthening of official representation will in no way reduce the need for active, on-the-spot involvement by businessmen and other interested individuals from the non-official sector. The Committee's witnesses have been unanimous in their conclusion that there is no substitute for first-hand Pacific experience and face-to-face contact. Some have also been highly critical of the past performance of Canadians in this regard. The Committee will have further comments on this subject, but it is worthwhile to quote at this point from the testimony of Dr. Lorne Kavic:

The cause of this neglect by the Canadian manufacturer would seem to lie in the comfortable preference for concentrating upon traditional markets in the United States and Europe and a tendency to rely upon the Canadian Trade Service to drum up business for them in less familiar markets. The continuance of such a posture, however, is manifestly impractical in view of contemporary patterns of competitive trade. (1:10)

II CANADA'S ECONOMIC INTERESTS

43. As mentioned at the outset of this report, it is in the economic field that the Pacific region looms largest for Canada, and economic relationships with Pacific countries are still growing at a remarkable pace. Canadian exports to the area doubled from \$699 million in 1965 to \$1.4 billion in 1971. During the same period, Canadian imports from the area rose from \$406 million to \$1.2 billion. The 1971 total of two-way trade with Pacific countries (at \$2.6 billion) represents almost 8 per cent of Canada's total trade and one-third of Canada's overseas trade. All available projections indicate that the volume of trade will continue to grow at a comparable pace over the next few years, with a continuing balance in Canada's favour. At the same time, the flow of Canadian investment to Pacific countries has intensified and Japan has become a very important new supplier of capital for the development of Canadian resources and industry.

44. In spite of this record of growth in Canadian economic relations with the countries of the Pacific region, the Committee believes that more can and must be done to realize the full national potential in this area. There is a special urgency to this objective in view of the growing realization that Canada's economic prospects are vitally dependent on a diversified range of expanding trade relationships. From a Canadian viewpoint, the vast potential markets of the Pacific have only begun to be tapped. If Canadians can meet the new challenges and opportunities in this area, the national economy will be immeasurably strengthened.

Japan

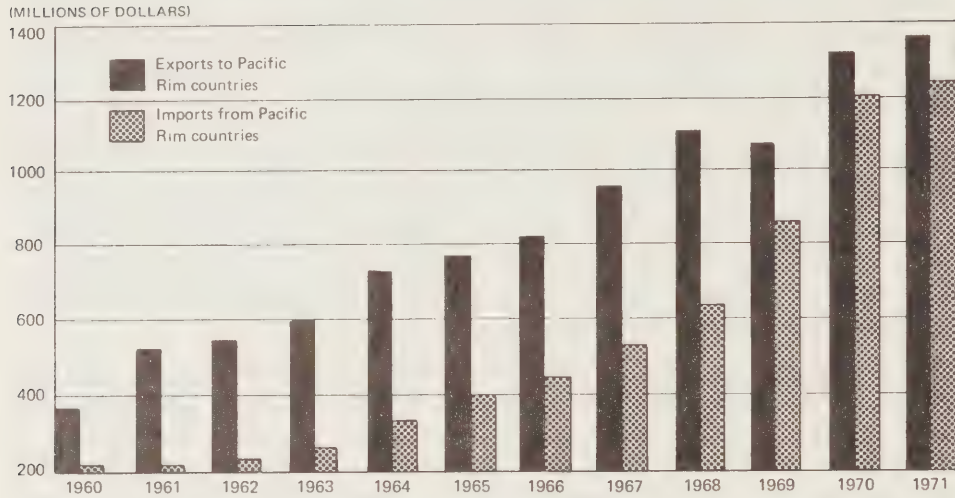
45. Japan accounts for 60 per cent of Canadian exports to the Pacific and almost the same proportion of imports. It is thus not only the dominant factor in Canada's Pacific trade, but a top trading partner in its own right—Japan is now Canada's third largest export market and will probably soon overtake the UK for second place. As the table below shows, Japan also ranks third (after the US and UK) as a supplier of Canadian imports.

CANADA'S PRINCIPAL TRADING PARTNERS

46. 1970 and 1971

<i>Exports to</i>	<i>\$ millions</i>		<i>Imports from</i>	<i>\$ millions</i>	
	1970	1971		1970	1971
United States.....	10,641	12,149	United States.....	9,905	10,949
Britain.....	1,480	1,361	Britain.....	738	832
Japan.....	793	791	Japan.....	582	802
Germany, Federal Republic.....	384	319	Germany, Federal Republic.....	371	429
Netherlands.....	277	235	Venezuela.....	339	388
Australia.....	198	183	France.....	158	213
Belgium-Luxembourg.....	190	181	Australia.....	146	126
Italy.....	184	210	Italy.....	145	157
Norway.....	176	186	Sweden.....	106	113
France.....	154	156	Switzerland.....	81	86
China.....	142	204	Netherlands.....	79	76

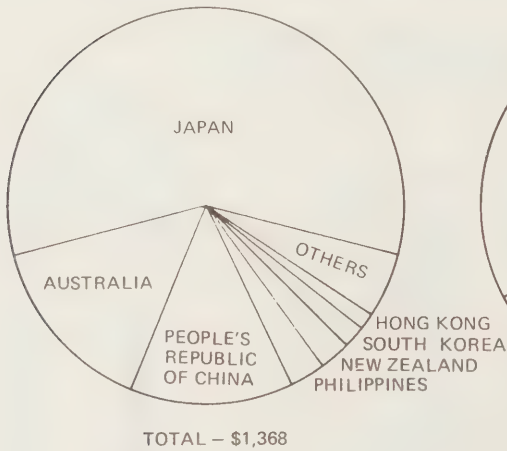
GROWTH OF CANADA'S PACIFIC TRADE (1960 - 71)



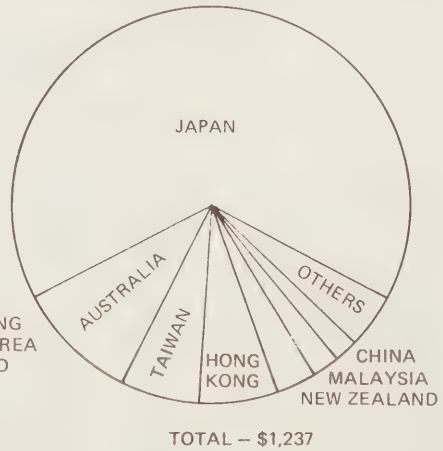
DISTRIBUTION OF CANADA'S PACIFIC TRADE (1971)

(MILLIONS OF DOLLARS)

Exports to Pacific Rim countries

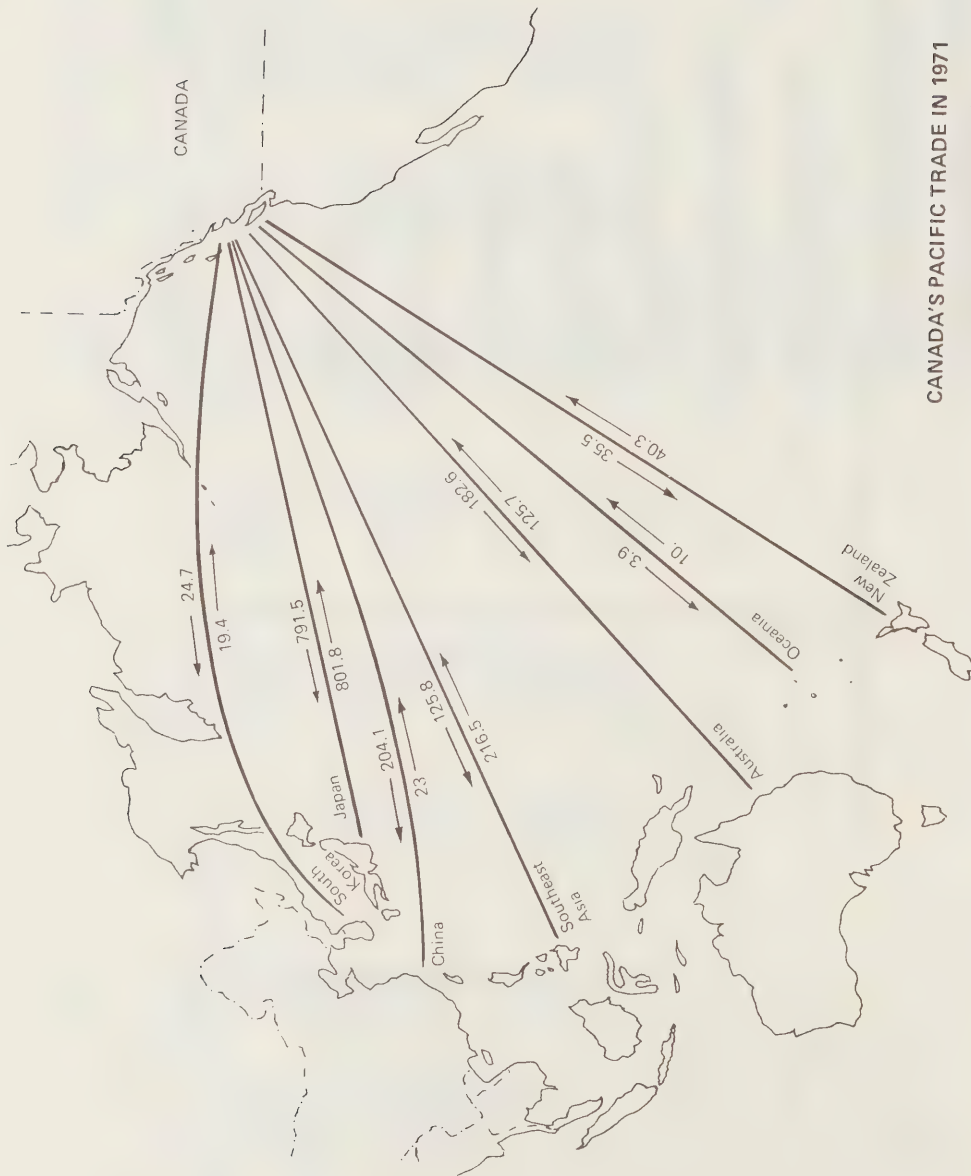


Imports from Pacific Rim countries



CANADA'S TRADE WITH PACIFIC COUNTRIES
(\$ 000 Cdn.)

	1965		1969		1970		1971	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Japan.....	316,187	230,144	624,837	495,704	793,079	583,715	791,478	801,842
Taiwan.....	6,577	9,333	12,631	42,456	18,315	51,936	14,140	80,717
Philippines.....	26,354	3,583	32,328	4,486	30,154	4,329	39,862	6,211
Indonesia.....	1,636	2,365	2,948	284	16,489	589	10,185	1,061
Australia.....	140,372	47,372	163,258	96,285	197,750	146,148	182,638	125,671
New Zealand.....	36,845	14,870	36,976	41,182	42,691	43,064	35,521	40,254
Fiji.....	1,115	4,801	873	5,681	905	6,899	864	8,664
Br. Oceania.....	317	—	72	1	174	—	146	3
Fr. Oceania.....	508	5,092	715	2,842	790	2,545	1,604	1,280
U.S. Oceania.....	828	138	1,734	42	1,234	82	1,239	17
South Korea.....	822	1,468	15,330	12,192	18,806	14,569	24,650	19,420
China.....	105,131	14,445	122,418	27,421	141,995	19,028	204,061	23,300
Thailand.....	5,621	899	8,539	995	8,006	1,061	13,129	3,011
Viet-Nam.....	804	2	2,135	5	3,839	13	2,828	7
Cambodia and Laos.....	128	—	204	—	653	—	9	10
Malaysia.....	9,253	40,272	15,524	32,824	14,003	34,180	15,590	26,867
Singapore.....	—	—	4,822	21,967	10,797	20,211	9,683	18,456
Hong Kong.....	16,734	31,043	17,678	72,942	20,753	78,486	20,371	80,187
Total.....	669,232	405,827	1,063,022	857,309	1,320,433	1,004,855	1,367,998	1,236,978



CANADA'S PACIFIC TRADE IN 1971

(Millions of Canadian Dollars)

47. These facts, however, fail to show the full impact of Canada-Japan trade on the Canadian economy. The great bulk of Canadian exports to Japan are in a few large commodity groups and their production is heavily concentrated in one geographic area. Thus, in 1969, 76% of Canada's exports were made up of: copper & copper products (21.8%); lumber & lumber products (20.2%); grains (13.4%) and other agricultural products (10.7%); aluminum and primary aluminum products (9.7%). In the same year, Western Canada accounted for almost 80% of Canada's total exports to Japan, comprising British Columbia, Yukon and the Northwest Territories (52.5%), Saskatchewan (13.4%), Alberta (10.8%) and Manitoba (3.0%). Thus if Japanese trade is important to the Canadian economy as a whole, it is crucial to the western provinces and territories.

48. In contrast with this export picture, in which the bulk of Canadian exports move in the crudest form (with only 3 per cent in the form of finished products), more than 96 per cent of Japanese sales to Canada are accounted for by a diversified range of processed and manufactured goods. The geographical distribution of Canadian imports from Japan is also markedly different from that of exports. Western Canada receives 26.4% of the total. Ontario and Quebec together take 67%.

49. The Committee believes that these basic factors of composition and distribution must be borne in mind in any discussion of Canada's overall trade balance with Japan. As the Minister of Industry, Trade and Commerce told the Committee, "we are very pleased about" the high volume of raw materials sales to Japan, but in view of the high job-producing manufactured content of Japanese sales to Canada, "this is a typical case of where asking for balance of trade between two countries is obviously not logical or acceptable."

50. These questions relate to some of the main policy issues at stake in Canada-Japan economic relations. Specifically, these include: the Canadian desire to up-grade the level of processing of existing exports and to sell a broader range of end-products; Japanese dissatisfaction about the total imbalance of trade and restrictions on access to the Canadian markets for some of their major exports; and varied concerns about the two-way flow of investment.

Upgrading and diversification of Canadian exports

51.

The Japanese ideal—and this is not criticism of the Japanese—is to send a steam shovel built in Japan, in a Japanese bottom, to Canada; ship it—all right—on a Canadian railroad to the mining site; put one Canadian at the controls; dig up the real estate; ship it out in Japanese bottoms to Japan—the minimum of Canadian participation, the minimum of Canadian value added. This is not, in my view, very advantageous to Canada. I agree that it is very advantageous to Japan. (p. 9:17)

52. This colourful illustration, from the testimony of Mr. T. J. Pope, a former Canadian Foreign Service Officer in Japan, depicts one of the perennial problems involved in resource industries. Issues of processing, like those of price, terms and delivery, are central to the bargaining process. Governments are concerned, because of the employment and economic "spin-offs" derived from processing. At

the same time, however, most of the international raw materials markets are uncertain and highly competitive. For this reason, the basic bargaining power of buyer and seller varies from time to time and from commodity to commodity. It is therefore neither realistic nor desirable to attempt to set up inflexible processing standards to apply to the whole range of raw-materials industries.

53. With these factors in mind, however, the Committee has concluded that, whatever the past considerations, it is no longer economically desirable (or perhaps necessary) for the great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their rawest transportable and least profitable form". Some of the Committee's testimony is encouraging about the prospects for improvement. Mr. Robert Bonner expressed the following view:

. . . having become a dependable, responsible, and large-scale supplier of many Japanese raw material requirements over the years we can interpose the legitimate viewpoint that we ought to be upgrading the quality of those exports to Japan in every possible way. When I had something to do with this subject as a matter of public policy, these points were touched upon with various Japanese delegations with whom I met. There was not at that time any resistance to this idea . . . so I think that there is on the Japanese side frank recognition of legitimate aspirations of this sort which might be voiced on our side. (p. 3:7)

54. These opinions were corroborated by the testimony of the Canada-Japan Trade Council. The Council's president, Mr. R. L. Houston, put it this way:

It might be a very interesting exercise were Canadian suppliers of basic raw materials . . . to suggest to their Japanese counterparts during contract negotiations that more Canadian content in shipments was desirable. There is nothing that I know of to indicate that Japanese businessmen would be adverse to a proposal that a greater degree of processing or even manufacture be undertaken in Canada before shipment. In such a proposal, of course, it would be desirable to see that it made sense commercially. (p. 11:7)

55. It has also been pointed out that Japan itself, while remaining dependent on imported raw materials for its industries, will almost certainly be shifting to a more sophisticated technological level of production over the next decade or two. This fact, combined with problems of pollution and labour shortages, make it very likely that Japanese industry will be less interested in processing raw materials at home and that Japan's "foreign investment will be made increasingly in projects which involve processing of raw materials to a progressively higher degree abroad." (p. 11:9)

56. It seems clear from this evidence that it would now be opportune for Canada to begin redressing this imbalance. The Canadian claims are reasonable and, for various reasons, the Japanese should be increasingly amenable. However, it is only reasonable to expect the primary initiatives should come from the Canadian side. There emerges the recurring problem of "fragmentation". Varied interests, including different provincial jurisdictions, are involved in the resource industries concerned. Japanese negotiators, who are able to represent concerted national policies, find no equivalent counterpart in Canada. With open competition among supplying industries and jurisdictions, it is of course difficult to set up and enforce consistent regulations or legislation. The Committee considers this an urgent priority for

action by industries concerned and by governments at all levels. The federal role will be particularly important in pressing for uniform legislation and in negotiating general improvements with the Japanese Government.

57. A concerted Canadian approach would allow this country to take full advantage of its very considerable bargaining assets: a highly stable economic and political climate to guarantee that the Japanese requirements for assured supplies will be met; abundant resources and reserves in certain commodities; and a proven record in relations with Japanese enterprises.

58. With respect to diversification of Canadian exports, the Committee has heard conflicting testimony about the gravity of Canada's problem, and its causes. With less than 3 per cent of Canadian exports to Japan in the form of end-products, the Committee believes that there is unquestionably a serious problem. There is not, however, any one simple explanation. It is to be expected, of course, given the structure of the Japanese economy, that a very large proportion of that country's total imports would be in the form of raw or semi-processed materials. However, among the industrialized countries, Japan imports the lowest proportion of its total imports in manufactured goods (15 per cent). This figure lends credence to the view, expressed by the Honourable Jean-Luc Pepin, that "in Japan, tariff and non-tariff barriers have tended to work excessively to control imports of manufactured products and to limit to a marked degree import competition."* It was stressed by other witnesses that Japan has made considerable progress in liberalizing its tariff restrictions, but the Committee believes that the Canadian Government is justified in pressing for acceleration of this process and for the elimination of Japan's "non-tariff barriers" which include import-licensing policies and quantitative import restrictions.

59. These Japanese controls, however, do not explain the fact that Canada lags so far behind the average in the proportion of its exports to Japan in manufactured form. The Canada-Japan Trade Council asserted that "markets in Japan for Canadian manufactured goods exist. More imaginative, dynamic and persistent Canadian salesmanship could probably have changed our trade 'mix' before now." (11:22). There have been several suggestions that this is attributable to a lack of "imagination and aggressiveness" on the part of Canadian businessmen, and the Committee has concluded that this criticism is basically valid. As mentioned in Chapter I, it relates to a general lack of familiarity with the Pacific area and its potential. Perhaps a more deep-rooted, and alarming cause however, was identified by Professor K. A. J. Hay:

. . . at the end of the 1960's the market for manufactured exports to Japan . . . was equal to \$15 billion . . . If one looks at the structure of that market one finds that it is dominated by three suppliers who have been supplying the market for 15 years, the United States, West Germany and the United Kingdom.
. . . The reason why the Japanese concentrated on these three suppliers is again very simple to understand: those three countries lead the world in investment in research and development and they are, in order, those countries which produce the largest number of patents, new ideas and new technology each year.

* Speech to the Annual Meeting of the Pacific Basin Economic Cooperation Council, Vancouver, May 14, 1971 (p. 8)

. . . Unless we concentrate a little more on developing highly sophisticated specialized manufactured goods it will be difficult for us to get back a substantial portion of the Japanese market for manufactures . . . (11:13, 14).

60. This problem, of course, relates to one of the main national concerns about Canada's general economic situation, and one which has been extensively studied by another Senate Committee. Canada's position in the highly competitive Japanese market appears to be yet another indication of the central importance of scientific and technological innovation to this country's vital trade interests.

61. An encouraging demonstration of the Canadian Government's determination, in co-operation with the business community, to attack these problems and promote the growth of mutually-beneficial economic relations with Japan, was the despatch of the Canadian Economic Mission to Japan in January, 1972. This mission, headed by the Minister of Industry, Trade and Commerce, was the largest Canadian mission of its kind ever sent anywhere in the world. It led to a full discussion of outstanding bilateral issues, and the initiation of important new contacts between Canadian and Japanese businessmen. The participants in this mission also indicated their firm intention to carry out all the necessary "follow-up", in order to achieve the most effective and lasting results.

Areas of Concern for Japan

62. Two kinds of Japanese concern have been referred to: dissatisfaction about the general balance of trade in Canada's favour; and complaints about access for specific products in the Canadian market.

63. The general concern has been dealt with in previous sections. There is no reason to believe that the total volume of bilateral trade should be in perfect balance, especially when 96 per cent of Japanese exports to Canada are end products, while only 3 per cent of Japanese imports from Canada are in this category. In 1971, in fact, the overall trade balance was suddenly and dramatically reversed. Japanese sales to Canada increased approximately 38% while Canadian exports to Japan actually declined slightly. It is not yet clear whether these developments represent the beginning of new trends, or are results of temporary circumstances. As Mr. Pepin told the Japanese Press Club on 24 January, 1972, "We hope that our exports decline is temporary, you hope that your exports leap is permanent". Whatever its duration, however, the Committee hopes that this changed balance of Canada-Japan trade will shift the focus of discussion from the overall dollar-volume of trade to the more pressing and relevant questions about the "quality" of that trade.

64. Specific Japanese complaints about bilateral trade with Canada relate especially to "anti-dumping" actions and procedures relating to the voluntary restraints system by which the Japanese agree to limit exports of certain goods in order to avoid disruption of the Canadian market. The range of Japanese exports to which restraints apply, however, has narrowed progressively, leaving only textiles as the real point of contention. The textile issue is, of course, part of a

broadier global issue and is extremely important domestically in Canada. Mr. Pepin has been quite categorical in his assertions on this subject.

For this commodity, Canada is probably the most open of all industrial countries, as shown, for example, by the degree of penetration of the domestic market already reached by imports. Per capita, Canada buys ten times more textiles from Japan than does the EEC, or the U.K., almost double the per capita imports of the USA and triple that of Sweden. In value Canada imports roughly as much from Japan as does the entire European economic community—a market approaching 200 million people. (P.B.E.C.C. speech, p. 9)

65. These statistics are certainly impressive, and in this light, the Committee finds the present Canadian policy on textile imports to be reasonable. The criteria for protection, which include the obligation for producers to present rationalization plans to the textile board, are designed to guarantee that only viable and internationally-competitive producers will remain in operation.

66. In any discussion of this topic, it must also be recognized that for Japan, textiles represent a relatively small and declining proportion of total exports to Canada (10.48% in 1969). The main part of Japanese exports is now made up of diversified consumer durable goods (42.53% in 1969) and producers' goods (34.64%). In relative terms, textile and clothing exports are vastly more important to several of Canada's other Pacific trading partners. Some of these are in the category of "developing countries" with a less diversified industrial base and may merit special consideration on that basis. It must also be added that the Committee has seen no evidence to indicate that anti-dumping actions have been abused to hamper Japanese exports to Canada.

Two-way investment flows

67. Since both Japan and Canada have rapidly-expanding economies, with heavy domestic capital requirements, there has not been extensive investment by either country in the economy of the other. Another contributory factor has been the close control, by the Japanese Government, of both foreign investment in Japan and Japanese investment abroad. This is now changing, however, and a steadily-increasing volume of investment is flowing in both directions.

68. The book value of Japanese investment in Canada (at the end of 1969) has been estimated at \$110 million, concentrated primarily in the extractive resource industries. The bulk of this investment is in the form of debt rather than direct equity financing. While there seems to be a trend in the direction of more equity financing, Japanese investors seem to be flexible, depending on the needs of individual projects. Their primary concern is to secure a stable supply of resource materials. They have not sought majority control of Canadian industries and are aware of the advantages of joint ventures. Under these conditions, the Committee considers that Japanese investment can be particularly beneficial to the Canadian economy, with the further advantage of diversifying this country's sources of foreign capital.

69. Canadian investment in Japan remains small and narrowly distributed among a few large firms. The Japanese Government is now liberalizing its strict

controls, and there will be increasing scope for certain types of investment from Canada—although this is unlikely to reach large proportions. It is clear that joint venture arrangements in Japan will be almost essential for most types of Canadian investors.

Scientific and Technological Co-operation

70. Of all the Pacific countries, Japan, in particular, offers exciting scope for new co-operation in the scientific and technological fields. The March, 1972, Canadian Scientific and Technological Mission to Japan, headed by the Minister of State for Science and Technology, represents the beginning of an important new stage in this process of co-operation. The Committee believes that Canadians can now look forward to expanding and highly beneficial contacts in the future.

China

71. Intense interest has been generated in Canadian trade with China by the exchange of diplomatic recognition in October 1970, the opening of embassies and the successful visit of the trade mission headed by the Honourable Jean-Luc Pepin (in June & July 1971) and of visits by other Canadian leaders and business groups.

72. There are two striking characteristics of Canada-China trade: the heavy balance in Canada's favour (the value of exports was more than seven times that of imports in 1970), and the importance of grain sales as a proportion of Canadian exports, (well over 80% for the past decade).

73. Reporting on his discussions in Peking, Mr. Pepin noted that the Chinese did not insist on "balancing trade between China and Canada, which was a very important point for me." While it would not be reasonable to expect that perfect balance could be achieved, the extent of the present imbalance is understandably a matter of concern to China. The dollar-imbalance is not offset, as in the case of Japan, by a high volume of manufactured exports to Canada. China's foreign exchange is limited. To sustain imports at their present levels they will seek new opportunities to earn exchange with exports to Canada.

74. Chinese exports to Canada include a very wide range of products. The total volume has been growing significantly and an appreciable proportion of Canada's imports from Hong Kong—\$78 million in 1970—probably consists of re-exports from China. Restraint arrangements have been required on certain types of textiles and footwear, but here again the Chinese appear to have adopted an understanding approach to the problem of disruption of Canadian industry by low-cost imports. It is likely that there will continue to be increasing scope for Chinese exports to Canada, particularly as contacts widen through two-way travel and trade exhibitions.

75. It has been mentioned several times in testimony that the main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade fairs, seems to be that these shortages are now being rectified. Thus increases may be expected in a wide range of light

manufactures and textiles, as well as new commodities, including certain metals. The Chinese authorities look forward to increases in their exports to Canada and do not anticipate any serious problems in this mutually-beneficial trade relationship.

76. Since the first major wheat sales in 1961, China has each year provided a substantial outlet for Canadian grains, and therefore a continuing stimulus for the economy of the prairie region. While uncertainty has been a characteristic of most export markets for Canadian grains, China has been a reliable buyer, and now shows every indication of remaining one. Chinese planners have apparently determined that it will be beneficial to continue importing some proportion of the country's cereal needs. Canada has fared well in vigorous competition for this market and is now regarded as the priority grain supplier. In recent years it appears that political considerations have been a factor, with Canada's early initiative for recognition conferring a distinct advantage. As the normalization of China's relations with other Western countries progresses, Canada can expect increasing competition for the Chinese market in most products. Assuming that the present basis of good relations is maintained, however, the Committee believes that the Chinese will continue to be favourably disposed toward Canadian exports in general and will stand by their assurance that first consideration will be given to Canadian grains.

77. The Canadian Government was right in not expecting that diplomatic recognition would lead to a sudden upsurge in exports but there are signs that new types of opportunities are opening up. Forest products and minerals are now being bought, and the Chinese have agreed to consider Canadian machine products and transportation and communication equipment. They will also consider imports of Canadian technology—heavy machinery or perhaps complete plants—and have accepted the possibility of Canadian experts travelling to China to work temporarily in the installation and development phases. In general, the Committee has concluded that there is expanding scope for valuable economic relationships, both immediate and long-term, between Canada and China.

Australia and New Zealand

78. Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. In 1970, Australia was Canada's sixth largest customer. Canadian exports were valued at \$197.7 million. Australia ranked well ahead of such countries as France, China and U.S.S.R. It is significant that 40 per cent of those exports were fully manufactured end products, providing extensive employment and other benefits to the Canadian economy. On a per capita basis, New Zealand has long been one of Canada's best customers. Imports from Canada (amounting to \$42.7 million) are largely manufactured and semi-manufactured goods.

79. Both of these countries, and particularly New Zealand, are confronted by an uncertain economic outlook because of British entry into the E.E.C. It will be important, for all concerned, to maintain the present preferential arrangements

between Canada and these countries as the Commonwealth (or British Preferential) system comes to an end. This seems to be fully recognized on all sides, and has been a frequent topic of discussion among representatives of the three countries in the recent past. Arrangements made in 1970 with both Australia and New Zealand should provide improved opportunities for close and regular consultation on economic matters at decision-making levels.

80. Apart from mutual trade, this consultation can be very beneficial on a number of broader economic issues in the Pacific region. The three countries share a common background and natural links of many kinds. As middle-ranking members of the Pacific community, however, the similarities of approach are reinforced by tangible common interests, particularly in the case of Canada and Australia. The two economies are competitive in many fields. This competition, no matter how vigorous, has not prevented cooperation, as in efforts to stabilize world trade in agricultural products. This experience (and the precedents of co-operation among producer-countries of other commodities) can and should be extended. Canada and Australia share an interest in a number of industrial raw materials flowing to a number of shared markets. It could be valuable for the two governments to maintain close consultation on matters of common concern (such as processing requirements) involved in this trade.

81. Canadian investment in Australia has been estimated at approximately \$400 million, distributed among a number of resource development and manufacturing industries. The Committee's evidence suggests that this will continue to grow. With respect to foreign investment in general, Canada and Australia once again have similar problems, and the sharing of experience may prove increasingly useful.

Other countries

82. Most of the remaining countries of the Pacific region are developing countries, at various levels of economic progress. Among them are a number which are already important to Canada in the fields of trade and investment, and several others which are certain to become so in the future. To the extent that these economic relationships bear on the general effort to advance development in the Pacific region they will be discussed in the succeeding chapter. However, it is to be noted that Canada tends to have a favourable balance of trade with the least developed of these countries. This reflects some natural economic forces, and, in some cases, the flow of aid-financed goods from Canada. It also illustrates the extent of the tasks which lie ahead if these countries are to be helped to help themselves by expanding their exports. In this process, of course, they will also offer expanding markets for Canadian exports of all kinds.

83. The more industrialized countries and territories of this group, such as Hong Kong, Singapore, Taiwan and South Korea, maintain healthy levels of exports to Canada. They have implemented voluntary restraint arrangements for certain commodities, so as not to unduly disrupt Canadian industry. The Committee's comments above on protection against certain Japanese imports generally

apply to these countries as well. Such protective arrangements appear to be justifiable in certain circumstances as a temporary measure to allow for the rationalization of specific industries with high regional employment impact.

84. In applying these limitations to less-developed countries, however, it must be recognized that they tend to be much less diversified industrially and are therefore more dependent on the exports in question. The Committee therefore recommends that wherever latitude exists a generous approach be adopted in limiting imports from these countries. (Note: See tables on pages 26 & 27).

85. Canadian-based investment is to be found throughout the region in different concentrations. Substantial new amounts may be invested, particularly in Indonesia and New Caledonia. It seems likely that investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. The location and kind of Canadian investment will have a strong determining effect on the two-way flow of trade.

86. A formula which has been highly successful in the past, and which may prove increasingly essential in future, is the "package" approach to developing new industries. Under these arrangements, (which have worked well in forest products and minerals development) Canadian expertise is utilized in exploratory work, followed by management and engineering, machinery and capital. With this "package" are likely to come both sales outlets for the production of the new industry, and expanding opportunities for sales of Canadian goods and services. In a number of these countries fields are developing (particularly the two cited) in which Canadian corporations and individuals can offer substantial experience and expertise.

87. The Policy Paper outlines a number of measures being taken to facilitate investment by Canadian corporations. The negotiation of double taxation agreements with Pacific countries is a preliminary step. The Committee believes that the new investment insurance facility of the Export Development Corporation (EDC) will be extensively utilized by Canadian investors in developing countries in the Pacific. The Government also states that "it will continue to make available to Canadian firms information about national development plans and their prospects, and ensure that they are informed about the export financing assistance available." (p. 18).

88. All these measures will be of considerable value in encouraging Canadian investors to assume a larger role. In particular, the dissemination of information is a vital function the importance of which is too often under-estimated.

89. Further discussion of investment in these countries will be found in the succeeding chapter.

VOLUNTARY EXPORT RESTRAINT AGREEMENTS BETWEEN CANADA AND EXPORTING COUNTRIES IN THE PACIFIC REGION*
(December 1971)**

Country	Year First Agreement Negotiated by Canada (1)	Month Latest Agreement Concluded (2)	Period Covered by Latest Agreement (3)	Number of Separate Limits (4)	Cotton Textiles (more than 50 per cent Cotton Content) (5)	Other Textiles (6)	Non-Textile Products (7)	Implementing Provisions (8)
China, People's Republic of	1963		Aug. 1970–July 1971	11	cotton yarn, fabric pillow cases, sheets, shirts, blouses, slacks and shorts	fabrics, towels, knitted wear, shirts, blouses, slacks and shorts	men's and boys' gloves, wholly or partly leather	
Hong Kong	1961	Aug. 1971	Oct. 1971–Sept. 1972	8	fabric, towels, shirts, blouses, nightwear, slacks and shorts, cotton yarn	shirts, blouses, slacks and shorts, sweaters (woolen and man-made)	—	Hong Kong authorizes exports and supplies monthly statistics of licensed shipments
Japan	1960	Oct. 1971	Jan. 1971–Dec. 1971	9	fabric, pillow cases, sheets, blouses, shirts, slacks and shorts	nylon fabric, blouses, shirts, elastic braid, slacks and shorts, pillow cases, sheets, polyester cotton and filament	electronic receiving tubes for radio and television; only tube types produced in Canada	"The Japanese Gov't will use its best endeavour to urge Japanese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories"
Korea, Republic of	1967	July 1971	Jan. 1971–Dec. 1971	9	broad woven fabric, cotton yarn, pillow cases, sheets, shirts, blouses, slacks and shorts, sleepwear	nylon fabric, worsted fabric, woven shirts, blouses, knitted shirts, slacks and shorts, pillow cases, sheets, sleepwear, polyester fabric		The Korean Gov't has agreed to certify shipments of restrained goods.
Macao		Dec. 1970	Jan. 1971–Dec. 1971	5	garments of any fibre content: woven shirts, pyjamas, knitted sweaters, knitted shirts, slacks and shorts			Shipments under quota require export licence

Malaysia	1968	Dec. 1969	Sept. 1969 Aug. 1971	2	shirts, trousers	shirts, trousers	Exchange of statistical data envisaged
Singapore	1968	Dec. 1970	Jan. 1971– Dec. 1971	3	cotton towels, shirts, slacks and shorts	woven shirts, slacks and shorts	Exchange of statistical data envisaged
Taiwan	1963	Nov. 1969 (Dec. 1970)	Oct. 1969– Oct. 1971	6	cotton fabrics, woven shirts, sleepwear, slacks and shorts, (sheets and pillow cases)	woven shirts, slacks and shorts, (sheets and pillow cases)	

*SOURCE: Based mainly on material assembled by Prof. Klaus Stegeman to be published in a 1972 study for the Private Planning Association of Canada.

**Agreements that had expired in December 1971 are being negotiated. The information given in columns 2 to 8 refers to the latest agreements as of December 1971.

B. New Issues

The Canadian Approach

90. The first chapter of this report stressed the need for improved general co-ordination between different sectors if Canada is to adopt a more active and constructive role in the Pacific community. In the economic sphere, which is so central to the present overall relationship, better cooperation (both between and within the government and business sectors) is a particularly urgent necessity.

91. Improved communication is an important condition, and was recognized as such in the Policy Paper. It stated that "the Government welcomes the active co-operation of private interests involved in the Pacific", and pointed out that "the existing Pacific Basin Economic Cooperation Council provides a means for the expression of views to governments individually and jointly" (p. 19). However, the existing channels were not considered adequate, and the Government went further to state that it:

is prepared to consider, with other interested parties, the establishment of a Pacific Economic Advisory Council which would bring private interests and the investment community together with government, in order to take best advantage of trading opportunities and investment possibilities in the Pacific area. (p. 19)

92. The Committee regrets that apparently no further action has been taken on this suggestion. In dealing with the Pacific in particular it is essential to maintain this kind of close and continuing dialogue. This requires a firm organizational structure. The Committee feels that the Canadian Committee of the Pacific Basin Economic Council *(P.B.E.C.)—with its established international connections and its joint sponsorship by the Canadian Manufacturers' Association and the Canadian Chamber of Commerce—should be able to provide appropriate representation from Canadian business for a continuing dialogue with governments. P.B.E.C. has a specialized committee structure and, according to the testimony of Mr. K. H. J. Clarke, the then Chairman of the Canadian Committee, has established a solid basis for exchanges with governments (see pages 4:53, 54). If it can be assured that P.B.E.C.'s Canadian membership is sufficiently representative of Canadian economic interests, the Committee recommends that a joint initiative be undertaken by the Canadian Committee of that group and the Government to establish arrangements for continuing consultation on a firm and regular basis, rather than attempting to set up a new advisory council.

93. Improved communications and continuing consultation are, however, only preliminaries to the kind of concerted economic policy required by Canada in the Pacific. Throughout the Committee's discussion of economic relations with Japan, it was clearly implied that Canada has been at a continuing disadvantage in dealing with that closely integrated and dynamic national entity. Related problems emerge in trading with the monopoly state trading corporations of China. Elsewhere in the Pacific, it has been pointed out, the greatest economic benefits will probably be reserved for countries which can assemble and implement composite "investment-aid-trade packages". Canada now uniformly lacks almost all the necessary characteristics, "Fragmentation of effort" is the rule.

* The name of the organization was changed in May, 1971.

94. The extent of adjustment required should not be under-estimated. Mr. G. H. D. Hobbs, of Cominco Ltd. was asked if he was not suggesting "restructuring the whole Canadian economy along the lines of some of these other countries" (and notably Japan). He replied that:

... in any economic situation you are dealing with dynamic factors that require change. Certainly the Pacific requires closer collaboration between industry and government, and the development of institutions to ensure that our best interests in aggregate are further to our maximum effort. This is a very sophisticated group of competitors that we are dealing with and it is quite unlike those in other areas of the world. (p. 6:17)

95. A necessary adjustment is the development and enforcement of uniform national requirements for the processing of resource exports. Resolution of the federal-provincial jurisdictional problems involved will be a less formidable matter when weighed against the heavy costs to the national economy of the continuance of the present unsatisfactory situation.

96. Another basic consideration in any attempt to extend and expand Canadian economic relations in an area is the availability of incentives and other stimulants from government to Canadian industry. These encouragements range from a tax climate which is generally favourable to exporting and to investment abroad by Canadian corporations, to a number of specific programmes of financial incentives including export credits insurance, export financing and foreign investment insurance. It is essential that Canadian businesses receive Government support which is fully comparable with that provided by other countries. A number of witnesses implied that this is not now the case. The Committee therefore recommends that urgent study be given by the Government to the incentives available to Canadian businesses involved in the Pacific region, with a view to ensuring a continuing level of "comparability" (especially in export incentive programmes) with the support available in competitor countries. The Pacific region is a highly competitive economic environment. It is therefore vital to remove unnecessary obstacles to a more dynamic Canadian performance.

97. Another far-reaching suggestion, which has been supported by a number of witnesses, is for the creation of some kind of Canadian counterparts for the most successful Japanese trading corporations. These corporations, with their special responsibilities and expertise in trading and overseas representations, are all either affiliated or integrated with a wide range of financial, producing and transportation companies. They are thus able to maintain continuing global representation and carry export transactions through from prospect to actual delivery. In carrying out these functions, they acquire an enormous fund of economic intelligence and familiarity with conditions in the countries in which they operate.

98. The contrast with the situation of Canadian companies is startling. In dealing with Japanese firms, for example, most smaller Canadian companies (and some of the larger ones) lack even their own translation services and are sometimes in the position of having to rely solely on the interpreter of the other party. Economic intelligence is sometimes comparably deficient.

99. The formation of large Canadian trading companies to remedy these shortcomings will not be a simple task. Some witnesses have argued that Japanese corporate forms are essentially indigenous to that country and cannot be transplanted. However, comparable trading corporations operate elsewhere in the world.

100. Detailed study will also be needed to determine the exact form of organizations appropriate to the Canadian situation. In some Canadian industries, export agreements among producers may be sufficient to achieve the desired result. In other cases, a trading corporation structure may also be needed to provide market intelligence, negotiating facilities and expertise, and coordination of production, distribution and sales.

101. While all of the Committee's witnesses questioned on this subject favoured the new structures being in the private sector, they could not point to any immediate prospect of action. Such trading corporations will require effective cooperation from governments in Canada. The Committee recommends that the federal Government be prepared to take the first steps in organizing them. Naturally, the full support of the private sector must also be secured. The Committee therefore recommends that the formation of new trading structures of this kind be the first priority for discussion with the Pacific economic advisory committee when that group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada. Preliminary discussions should also be held with the Canadian Committee of the Pacific Basin Economic Council and other interested groups.

102. Co-operation between government and business in the sponsorship of trade missions and exhibitions is imperative. As promised in the Policy Paper, this kind of promotional activity is being stepped up. Increasing numbers of businessmen are moving in both directions and expenditures on trade missions and trade fairs are being increased. The policy of selectivity in promotion should maximize their effectiveness.

103. It is also relevant to ask why there is such an institution as the Canada-Japan Trade Council based in Ottawa and no comparable body operating in Tokyo. The inescapable answer seems to be that the Japanese business community has been energetic in its initiative interest and support, while no comparable drive has been forthcoming from their Canadian counterparts (see p. 11:12). The Committee finds that the Canadian need for this kind of vehicle of communication is much greater than the Japanese need. Canadian business groups should be actively studying the experience of this institution and acting on it as appropriate.

104. Mutual relationships among the Pacific nations have been developing at an impressive pace. The increasing economic importance of Japan to Canada has been documented in previous sections—Japan has also become Australia's most important trading partner. Japan-U.S. economic relations, while difficult at times,

have reached a scale of critical importance for both countries. In view of these growing ties (and the natural complementarity of the economies mentioned), it is not surprising that some observers have been much attracted by the idea of closer (and formalized) regional economic associations. One such suggestion of a Pacific trading bloc was originated by Mr. Miki, the former Foreign Minister of Japan. Though the specifics of the "Miki concept" were never fully defined, the basic notion was enthusiastically received in some quarters.

105. A number of the Committee's witnesses commented favorably on the possibility of closer regional economic associations, and the president of the Canada-Japan Trade Council went so far as to advocate that Canada take the initiative. He stated:

I feel that Canada could take a lead in exploring the setting up of an economic association between the United States of America, Japan and Canada, and perhaps later on Australia and New Zealand, and perhaps still other countries such as the Philippines. We might then have a group of countries linked economically in a somewhat similar manner to the European Economic Community. Of course there would be many difficulties to be overcome, but I do not feel they would be insoluble. (11:10)

106. The parallel with the European Economic Community (EEC) indicates the ambitiousness of some of the hopes for regional economic integration. There is a wide range of more limited and gradual possibilities. In the light of developments subsequent to Mr. Houston's testimony (in March 1971), however, the prospects for any kind of closer regional integration appear slight at present.

107. From a Canadian point of view, there are also some very fundamental questions involved in any consideration of membership in a regional economic bloc. While the Pacific region unquestionably offers Canada expanding markets, it does not necessarily present the most attractive growth prospects for Canadian exports of fully-processed and manufactured goods. A regional arrangement in the Pacific, therefore, might benefit Canada much less than its partners and, conceivably, diminish more attractive Canadian opportunities elsewhere. The prospect of closer regional economic ties would, therefore, require intensive examination by Canada in the light of long term economic strategy. It is clear from the present state of economic relations between Japan and the United States that a regional trade bloc is probably a distant prospect and that Canadian initiatives in this regard would almost certainly prove ineffective at this time.

108. One field of cooperation, which is almost invariably mentioned in the context of regional economic arrangements among the developed countries of the Pacific, is assistance to the region's less-developed countries. Combined or better-coordinated aid efforts are generally to be welcomed, and the Pacific region may offer special opportunities for this kind of joint endeavour. Here, Canadian programmes may be effectively meshed with those of Australia, the Netherlands, Japan and other medium-sized donor-countries particularly involved. There are a number of possible mechanisms for achieving coordination on a regional scale—the Asian Development Bank (ADB) is one, and the Economic Commission for Asia and the Far East (ECAFE) another. The Committee recommends that Canada should work

actively within these institutions to help mobilize the kind of massive aid effort required. The existing machinery for "aid consortia" and "consultative groups" should provide valuable experience in aid cooperation and help build a basis for joint undertakings on a regional scale. On a parallel basis, non-governmental regional groupings, such as the Pacific Basin Economic Council (PBEC) should work to strengthen the contribution of the private sector to regional development.

III CANADA'S INTEREST IN DEVELOPMENT COOPERATION

A. The Rationale

109. It is clear from the Government's Policy Paper, and from subsequent statements and announcements, that international development aid will be one of the main elements in Canada's future involvement in the Pacific region. The Committee firmly supports this policy.

110. Development assistance is a responsibility of richer countries toward their poorer neighbours and is a contribution to international social justice and the improvement of the global quality of life. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. It seems clear that this contribution is expected of Canada and will be a prerequisite for full Canadian participation in the regional community. Ultimately, only widespread economic and social development can eliminate the conditions which produce chronic instability in the Pacific and make it a prime focus of international tension and conflict. It is in the field of development aid that Canada can best utilize its existing national institutions and capabilities to make a constructive contribution to the long-term peace and stability of the region. Supporting the moral imperatives involved is the impressive economic potential of the developing countries of the region, some of which are already at or near the take-off point of economic viability. A number of these countries already provide important markets for Canadian exports, and if present trends are maintained, continued rapid growth can be expected. Canada's own interests are thus directly served by the general progress of the regional economies, and in particular by their familiarization, through aid programmes, with Canadians and Canadian goods and services.

111. In the face of these very strong arguments for an expanded Canadian programme of development cooperation in the Pacific, it is also recognized that there are a number of significant constraints. The main limitation is the availability of Canadian aid resources in relation to the size of regional needs. It was reported to the Committee by CIDA that Canada's bilateral aid commitments and disbursements to Pacific Rim countries represent just under 6 per cent of the value of Canada's world-wide bilateral programme. This very small proportion, in spite of rapid increases in recent years, reflects the extent of continuing Canadian aid commitments elsewhere in the world. It is clear that all of the existing areas of emphasis—India and Pakistan, the Commonwealth Caribbean, and Francophone and Commonwealth Africa—will continue to require intensive Canadian assistance. Even with continuing increases in Canada's overall aid programme, it will be extremely difficult to quickly raise allocations to the Pacific to a much higher proportional level. Another constraint is imposed by

Canada's relative lack of knowledge and experience of most of the developing nations of the Pacific. With a few exceptions, such as Malaysia, Canada has not had aid programmes of substantial size or duration in Pacific countries, nor extensive involvements in other fields.

112. In view of these problems, the Committee believes it probable that Canada's programme of development cooperation in the Pacific will grow gradually, perhaps more gradually than is implied by the Government's Policy Paper. It would be regrettable if the foreign policy review, with its emphasis on "new directions" and greater involvement in the Pacific region were to have led to unrealistic expectations among potential recipient nations as to the amount of aid which Canada may provide. An illustration of this problem is the fact that in the Policy Paper it was stated that Indonesia would become a "country of concentration" for Canadian aid. As a start in this direction, the allocation for that country was doubled to \$5.75 million in 1970. This figure, however, represented only slightly more than one per cent of the total aid received by Indonesia, a country of approximately 120 million people. Even with a continued rapid growth at this rate, it will clearly be some time before the Canadian programme assumes major importance from the Indonesian point of view.

113. In view of the limits on its present capabilities, the Committee considers it vital that Canada's approach to development cooperation in the Pacific be constructive and unostentatious in its tone. To make the most of the limited amounts of Canadian aid available, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional channels.

B. Regional Channels

114. Canada is already contributing to the Pacific area programmes of the World Bank Group and the Asian Development Bank. On a sub-regional scale, Canadian support of the Mekong Committee has already proved worthwhile and shows continuing potential for the future. Similarly, Canadian assistance to the Asian Institute of Technology in Bangkok, and the University of the South Pacific in Fiji provide widespread development benefits in Southeast Asia and Oceania respectively. A particularly effective element of this assistance is the provision of scholarships for students from neighboring countries to study at these regional institutions. In most cases, this is a more efficient use of funds than bringing students to Canada, and has the further advantage of providing more relevant training conditions and helping to build up the capabilities of the local institutions.

115. Canada has encountered difficulties in pursuing its intention (expressed in the Policy Paper) "to establish closer relations" with the regional United Nations Commission, the Economic Commission for Asia and the Far East (ECAFE). The Secretary of State for External Affairs has said that the Canadian Government is postponing its application for non-regional membership "until after some ques-

tions of a constitutional and organizational nature within ECAFE have been resolved by the membership." It is to be hoped that this delay will not be prolonged and that Canada will soon be able to play a full role in this regional group.

C. Country Programmes

116. The Committee is encouraged by the apparent direction of the programme in Indonesia (stressing projects in the forestry and transportation sectors) and the continuing excellence of the diversified programme in Malaysia. Elsewhere, as in Thailand, Burma, Cambodia and Laos the emphasis on technical assistance and forestry and resource development seem to be a good blend of local needs and Canadian capabilities.

117. In the cases of Hong Kong and Singapore, the Committee notes the expressed view of CIDA that, in the light of their attainment of impressive and self-sustaining growth, it now "appears appropriate to de-emphasize Canadian assistance" to these countries. It remains true, however, that if these countries are to maintain their growth and extend its benefits throughout their societies, they will require continuing assistance from developed countries and fair access to overseas markets for their export products.

118. In the cases of South Korea and the Philippines, the Committee is concerned with the rationale presented by CIDA for the "modest" level of past Canadian assistance. The CIDA brief stated, "These countries have traditionally received substantial economic assistance from the United States and Japan, and for this reason have not been emphasized in the Canadian program." While the Committee would not be inclined to recommend concentrated Canadian assistance to these countries, it does not believe that such a retiring attitude is justified. No one, and least of all the countries concerned, would contend that it is healthy for them to be so largely dependent on any one "donor", and they are actively seeking to diversify their sources of development assistance. Furthermore, both of these countries are at a critical juncture in their economic development and both are important to Canada in their own right. Canada has substantial trade (and favourable trade balances) with both countries. The Philippines is Canada's largest market in Southeast Asia and the future potential appears bright. Both countries also provide significant numbers of immigrants to Canada. On these grounds, the Committee recommends that CIDA adopt a more positive approach to their development needs, and remain open to requests from these countries for Canadian participation in promising development projects.

119. In South Vietnam, and in Indochina generally, the Government anticipates that Canada may well have a significant role in rehabilitation aid after the cessation of hostilities. The Committee supports the emphasis placed on this future possibility in the Policy Paper. The needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the hostilities and its francophone capability can play a particularly helpful role.

120. A further element in the Government's plans for development aid in the Pacific is the projected expansion of assistance to island territories of the South Pacific. Beginning with assistance to the University of the South Pacific, (in the form of scholarships, instructors, and some equipment), the programme has been extended to include the occasional provision of experts to the South Pacific Commission, and "a modest number" of teachers to Western Samoa. The CIDA brief to the Committee stated that further Canadian assistance is under consideration. The Committee has heard suggestions for a much-expanded Canadian effort in this area. Its advocates have pointed out that a relatively small infusion of resources could have quite a decisive impact in this region of less than four million people, and that Canada's bilingual capabilities could be used to good effect. The Committee believes that these are very strong arguments for a more energetic Canadian role. On the other hand, there are also grounds for some caution in approaching this situation. Because of its very "manageability" in terms of size, there is a temptation for Canadians to think along the lines of "adopting" the region in order to accelerate its development. This kind of sentiment may be seen in suggestions that Canada provide subsidized shipping services to and between the islands and provide special markets for a proportion of their exports. Such a scheme, if realized, would be likely to draw these countries into a very artificial Canadian "orbit". This would quickly be resented as paternalism and would probably frustrate the original good intent.

121. The Committee therefore recommends that Canada expand its assistance to the South Pacific countries and territories, acknowledging the need for Canadians to learn more about the region, and cooperating rather than competing with other outside countries working for regional development. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

D. Coordination and Cooperation

122. Working with the South Pacific Commission would provide opportunities for Canada to learn more about the area and at the same time coordinate its aid efforts with those of other interested donors, especially Australia and New Zealand. Some observers have suggested that this co-operation might take the form of a "little Colombo Plan". It must be reiterated that in the Pacific region this kind of co-operation with other donors is especially essential because of Canada's relative inexperience in the area and the limits of its available resources. Participation in regional and sub-regional development programmes is one of the most effective ways of sharing experience and achieving coordination, but there are also an increasing number of other possibilities. It will be generally beneficial to maintain an active dialogue with other donor countries with special Pacific interests. At the 1971 meeting of the Japan-Canada Ministerial Committee, it was agreed that the two countries should co-operate in their respective aid programmes. Other possibilities include the aid consortia and consultative groups to coordinate programmes in individual countries. Canada's membership in the Inter-Governmental Group on Indonesia is a positive move in this direction. On

a much broader scale, the Committee has heard suggestions for a massive joint effort for development, particularly in Southeast Asia (Prof. Ben Higgins recommended a kind of "Marshall Plan" for the region). While the level of Canada's present efforts would not lend credibility to a Canadian initiative in this direction, Canada could play a valuable role in such a plan. The special ties with Commonwealth and francophone countries, for instance, might prove very useful indeed.

E. Trade, Investment and Development

123. The Committee wishes to stress as forcefully as possible the central role of providing expanding trade opportunities in the economic development of these countries. Their achievement of economic growth and long-term stability will depend to a vital degree on their ability to find markets for their products of all kinds, especially labour-intensive manufactured goods. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter II A of the Report of the Subcommittee on International Assistance of the House of Commons Standing Committee on External Affairs and National Defence (May, 1971). Without decisive action to further assist these countries in the trade area, the Committee believes that present aid efforts may prove largely ineffectual.

124. In the present difficult trading climate among the developed nations the special needs of the developing countries appear to have been pushed even further into the background. The Generalized Preference System (GPS) for manufactured and semi-manufactured products of developing countries, which showed considerable promise, has not yet been generally implemented. In this respect, Canada and the U.S. have fallen behind the EEC and Japan, which have already put GPS schemes into effect. Implementation by Canada as soon as possible is needed to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be extended steadily as circumstances permit. Another important opportunity to act on these essential development issues will arise at the Third session of the United Nations Conference on Trade and Development (UNCTAD) in Santiago, Chile in 1972. The Committee hopes that Canada will be able to exercise a leading and progressive role among the developed countries at this important Conference.

125. The Commons Subcommittee report also goes into the broad range of current issues involved in the operations of Canadian-based investors in developing countries. The evidence before this Committee indicates that there is a substantial flow of investment from Canada to a number of developing countries in the Pacific. In these cases, this form of economic cooperation has great potential and is welcomed by the host-countries concerned. The fact that most of this investment is new means that arrangements can be made which are in accord with the realities of the contemporary situation and do not result in the kind of conflicts which have occurred in the past.

126. The encouragement offered to potential investors by the Canadian Government—in the form of CIDA incentives and EDC investment insurance—is a valuable complement to the official aid programme, and there are indications that the response from the Pacific region has been very good.

F. The Work of Non-governmental Agencies

127. Similarly complementary to the official programme of development assistance is the work of non-governmental agencies concerned with development cooperation. While this kind of Canadian involvement in the Pacific region has historic roots, it is not now as intensive as in some other areas of the world. As in other fields, however, Canadian activity is growing rapidly. The Committee's discussion with representatives of the Canadian University Service Overseas (CUSO)—which has the most personnel in the field—made it clear that the agencies are learning rapidly about the area and that their services are increasingly sought-after by local governments. Here again, the Government recognizes the complementary developmental role of these groups and provides a substantial portion of their financing. The Committee believes that this is a worthwhile use of aid funds, and that further support will be justified as these agencies expand their work in the Pacific region.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

A. Regional Challenges and Canadian Capabilities

128. It has been observed earlier that Canada can be described as a "Pacific power" only in the economic sense, and then only if the national potential is more fully realized. In the more traditional senses in which the term is used, Canada has neither the aspiration nor the means of being a "Pacific power". In regional politics, however, one important Canadian asset is the experience as a relatively small power co-existing side-by-side with a superpower. As a result of this background, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lopsided power relationships which are characteristic of the region.

129. In very broad terms, the regional outlook was cogently summarized for the Committee by Professor Hedley Bull of the Australian National University, when he said:

I think it is obvious that there grew up in the 1950's a pattern of power relationships in the Pacific area which in the course of the 1960's has been disintegrating and in the course of the 1970's will give place to something quite new. I believe that pattern will be governed primarily by the relationship of three great powers—the United States, the Soviet Union and China—and that the principal uncertainty of the 1970's is whether they will be joined by a fourth great power, Japan, and how the pattern of their relationships will be affected, if they are.
(7:15)

130. At this point in time, there are numerous possibilities for the relations among these four giants, in patterns of competition, cooperation or merely co-existence. Yet against this uncertain background the smaller powers of the Pacific must pursue their own national objectives.

131. At the same time, as the Policy Paper notes, "The shifting power balance is . . . only one aspect of the pattern of unresolved tensions in the Pacific region". Further "seeds of instability and conflict" are to be found in: the challenges of ideology and technological change to traditional societies and institutions; the race to meet the rising expectations of Asian peoples for economic and social development; and the racial frictions and territorial ambitions which are, "in Asia as elsewhere, an aspect of the inter-action of peoples and nations." (Policy Paper, p. 9)

132. The leaders of most of the smaller nations of the Pacific, preoccupied with these problems, seek an external environment sufficiently secure for them to devote their full energies to the urgent tasks of nation-building. They are anxious to avoid being drawn into regional rivalries among the great powers.

133. The Policy Paper stressed, as a Canadian contribution to general peace and stability in the Pacific, the effort to establish diplomatic relations with the People's Republic of China, "in the hope that Canada would be able to make a contribution

towards bringing China into a more constructive relationship with the world community". (p. 24). Subsequently, negotiations proved successful and ambassadors have been exchanged. The modest statement of the Government's hopes was appropriate; Canada could not aspire to any grand mediatory role, and the agreement with Canada was certainly more a result of a new Chinese approach than a cause. However, it is noteworthy that, in spite of China's new bilateral and multi-lateral initiatives, Canada is still the only developed nation of the Pacific region which enjoys the full range of interstate relations with China. As others work gradually to remove the barriers to communication and understanding, there may be numerous ways in which Canada, with open lines of communication to all these powers, can help. Such a role, the Committee believes, may represent a significant contribution that Canada can make in the normalization of great-power relationships and thus in the achievement of a more stable equilibrium in the Pacific.

134. The Canadian Government does not envisage any extensive military involvement, direct or indirect, in the Pacific region. As the Minister of National Defence, Honourable Donald Macdonald, told the Committee about Canada's general foreign policy objectives in the Pacific:

We believe the best way for Canada to enhance both its own aims and at the same time help the Asian countries achieve their goals of increasing their prosperity and raising the standard of living of their people is by increasing the level of trade and investment, and by development aid. The Government, therefore, . . . has given priority to our economic and political relations with the Pacific countries. (8:5)

135. The Committee agrees with these priorities, and particularly with the emphasis on development assistance as a constructive attack on the deep-rooted causes of social and international tension. While economic development provides no short-term assurance of stability, severe underdevelopment can only lead to continuing misery and conflict. The Committee therefore considers that development assistance is an urgent necessity for peace and stability in the Pacific, and one which is well-suited to Canada's interests and capabilities, especially in view of the flagging interest and commitment of some other donor countries.

136. In his testimony, Mr. Macdonald also stated:

While the Government feels that . . . Canada neither can nor should engage in large scale military participation in the Western Pacific in the present circumstances, there are various things that the Department of National Defence and the Canadian armed forces can usefully do to make some contribution both to the stability of the area and to the furtherance of our foreign policy objectives. (8:5)

137. The Minister added, however, that "the Government has concluded that at the present time it is not in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific. We do not, in other words, propose to enter the Australia, New Zealand, United States (ANZUS) pact, or the South-East Asia Treaty Organization (SEATO), or the Five Power Defence arrangements, or any . . . bilateral military alliance, with a Pacific country." (8:6) On the basis of its study, the Committee concurs with this "basic conclusion" of the foreign policy review.

B. Particular Roles

138. The military activities in which Canada will remain involved, according to the Minister's testimony, are: "to continue Canada's long-established programs of military collaboration with Australia and New Zealand, possibly to have limited military contacts with other Pacific countries, notably Japan, and to provide some carefully evaluated training assistance to Malaysia and Singapore." In addition to these involvements, Canadian military personnel continue to represent Canada on the Military Armistice Commission in Korea (a two-man team) and on the International Commission for Supervision and Control (ICSC) to Indochina (22 all ranks: 20 in Vietnam and 2 in Laos). A final—and the major—element in Pacific activity involving Canadian security interests is in jurisdictional, coastal and territorial protection on Canada's West Coast.

Jurisdictional, Coastal and Territorial Protection

139. Canada's military activities in the West Coast region are, of course, related to Canadian security interests in the Pacific area, and in various ways involve Canadian relationships with other Pacific countries. The major functions of the Canadian forces components in the area are related to the integrated arrangements for North American defence under the North American Air Defence (NORAD) and Alaska, Canada and United States (ALCANUS) agreements. In addition to this, elements of the armed forces are increasingly being utilized in conducting surveillance, and maintaining a Canadian presence, in relation to various kinds of coastal jurisdiction claimed by Canada. The Department of National Defence, in addition to maintaining its purely military preparedness, is well-equipped to assist other departments in the protection of the Canadian territorial sea, fishing zones, and pollution control zones. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the Federal Government's overall capabilities to promote important national interests in the Pacific coastal region.

Military Cooperation and Contacts

140. Australia and New Zealand are at present the only two Pacific countries with which Canada is prepared to undertake programmes of military cooperation on any scale. These programmes are well-established and mutually beneficial, and the decision to continue them is justified. The Committee understands that the plans for "limited military contacts" with other Pacific countries (notably Japan) are unlikely to involve standardization or technical cooperation agreements or large-scale training exchanges. More restricted contacts may, however, help to enhance mutual good-will and maintain an atmosphere conducive to collaboration on broad issues of security policy. There is some uncertainty about Japan's potential role in Pacific security affairs (particularly in the light of partial American disengagement). While its significance should not be exaggerated, there is an obvious rationale for a Japanese-Canadian dialogue on these matters.

Military Training Assistance

141. The Government clearly approaches these activities with a certain measure of caution, as evidenced by the following statement in the DND background papers: "The provision of carefully evaluated and limited military training assistance, both in Canada and in the recipient country, is one way in which Canada can help selected friendly states."

142. The Committee finds this cautious approach to be fully justified and in certain areas would recommend further caution. The largest and longest-established programmes are those in Malaysia and Singapore (introduced in 1964). Both programmes appear to have provided tangible benefits (to the Canadian forces personnel involved as well as to the recipient governments) and have contributed to continuing good Canadian relations with these countries. It must be recognized, however, that there are certain intrinsically sensitive characteristics to this kind of assistance (particularly when it is restricted to "friendly" countries) and that in the complex and fluid Pacific environment the political risks might outweigh any potential benefits.

143. These risks and complexities are evident in the fact that since 1969 South Korea has been sending small numbers of military personnel to Canada for staff training and, in 1971, Indonesia has also been included. Even with very small numbers involved, serious diplomatic complications could arise if these countries became involved in international or certain types of internal hostilities. The Minister stated that in future for budgetary reasons, "a very large amount of assistance will be confined to Malaysia and Singapore". (p. 8:11). The Committee welcomes this statement, on the grounds that well-tested activities can be sufficiently concentrated in these two Commonwealth countries to provide benefits commensurate with the possible diplomatic risks.

Peacekeeping and Truce Supervisory Roles

144. Canada's continuing representation on the Korean Armistice Commission is a hold-over from Canadian participation in the Korean War, but does not in practical terms represent any open-ended Canadian commitment in the event of a renewal of hostilities. As the Minister stated, "the extent of our involvement would, of course, depend upon our own decisions." (p. 8:14). At the same time, the Committee is concerned that no final legal settlement to the Korean War has been arrived at and that the original participant countries would, in theory, be automatically involved (under UN Command) in any new hostilities. This longstanding anomaly, and the legal, political and military implications of Canada's continuing representation on the Armistice Commission, should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian Embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

145. The outlook for truce supervision or peacekeeping activities in Indochina remains highly uncertain. As the Policy Paper states, the circumstances surrounding the cessation of hostilities will determine the prospects for different types of

arrangement. Clearly reflecting the frustrating Canadian experience with the ICSC, the Government has adopted a cautious approach to future operations, stating that, in the event of a settlement, "there could even be a role for an international mechanism, provided that a clear mandate, adequate resources and the full co-operation of the parties could be assured. These are essential conditions if the role of such an international mechanism is to be effective rather than merely symbolic." (p. 24). During his Pacific visits in 1970 and 1971, the Prime Minister at times expressed an even more guarded approach to the suggestion of Canadian participation in a revitalized ICSC, or similar new body.

146. The Committee concurs with the testimony of Mr. Macdonald, who stated "... there is, I think justifiably, a feeling of Canadian opinion—and I think there would be in this case—that if we can play a constructive and helpful role in Vietnam, then we should get right in there and do it." (p. 8:13). As the Policy Paper points out, "The political aspect of a new settlement will, in all likelihood, be even more complex." (p. 24). Here, of course, the intentions and commitments of the parties involved will be fully tested. The Committee agrees with the Government's judgement that "It would be unwise for Canada to go any distance in advance toward undertaking a new obligation to supervise a political settlement until it has been fully defined and is judged acceptable and workable." (p. 24).

147. While understanding the reasons for the Government's reservations, the Committee believes it important for Canada to indicate its continuing willingness to accept a role in order to help bring an end to the war in Indochina.

HIGHLIGHTS
of
CONCLUSIONS AND RECOMMENDATIONS
of the
REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

GENERAL

While Canada cannot attempt to adopt uniform general policies toward the heterogeneous group of countries found in the Western Pacific Rim, an overall attitude and approach of increased Canadian involvement in the whole Pacific region is not only possible but essential.

It is probably only in the economic field that Canada can at present be called "a Pacific power". Canadian trade and investment relations in this area provide immense economic benefits to Canadians, including new opportunities for the diversification of Canada's overall economic interests. This alone is an insufficient basis for Canada's future relationships in the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security and in co-operative action to share the benefits of economic development with the disadvantaged countries.

I THE BASIS FOR INVOLVEMENT

AWARENESS AND UNDERSTANDING

The Committee's evidence has indicated that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Canada lags behind other developed countries of the region, and some of the less developed, in generating a regional consciousness of the Pacific Rim and in acquiring the necessary knowledge and expertise. The Committee has therefore concluded that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region is a vital pre-requisite to broader and more fruitful Canadian involvement.

Specifically, the Committee recommends measures to promote the study of Pacific area languages in Canada; to better utilize and strengthen Canada's resources for Asian and Pacific studies; to expand exchanges of public information with Pacific countries; and to increase cultural exchanges (including sports competitions) and scientific and technological co-operation.

CO-ORDINATION

Canada suffers distinct disadvantages, in its relationships with close-knit Pacific societies, because of the diffuse and unco-ordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a more unified national presence and pursue consistent and coherent national policies.

In order to overcome a costly "fragmentation of effort" in Canada's economic relations with Pacific countries there is an urgent need for improved patterns of co-operation and communication between government and industry and among Canadian businesses themselves. Involvement of the academic community will also prove beneficial, and the Committee recommends prompt action on proposals of the Government's Policy Paper on the Pacific, to stimulate exchanges of personnel among these three sectors.

REPRESENTATION

While recognizing the financial and other constraints involved, the Committee has concluded that, if Canada is to pursue broad policies of increased involvement, the need for strengthened official representational facilities in the Pacific is urgent and inescapable. Prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

II CANADA'S ECONOMIC INTERESTS

In recent years, Canadian trade with Pacific countries (in both directions), has expanded at a phenomenal pace, and two-way flows of investment are growing steadily. All the indications are that the Pacific will continue to be an increasingly important focus for Canadian economic interests.

JAPAN

Japan is the dominant factor in Canada's Pacific trade and will probably become Canada's second largest market within the next few years.

The most striking features of Canada's export flow to Japan are the predominance of a few major groups of raw materials, and the concentration of their production in Western Canada which accounts for almost 80% of total Canadian exports. In contrast, more than 96% of Japanese exports to Canada are made up of a diversified range of processed and manufactured goods, with two-thirds of the total going to Ontario and Quebec.

The Committee is deeply concerned with the need for upgrading and diversifying Canadian exports to Japan. There is no longer any justification for the

great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their rawest transportable and least profitable form."

The time has come for Canada to begin redressing this imbalance. A concerted national effort will be required, however, and the Committee considers this an urgent priority for action by industries concerned and by governments at all levels.

With respect to the serious problem represented by the unsatisfactory level of Canada's manufactured exports to Japan (less than 3% of the total), the Committee believes that the Canadian Government is justified in pressing for further tariff liberalization by Japan and for the elimination of its many "non-tariff barriers". Other clear needs, however, are to overcome the lack of familiarity, imagination and aggressiveness on the part of Canadian businessmen in the area, and to attack the general problem of lagging scientific and technical innovation in Canadian industry.

In view of the vast discrepancy in the level of processing involved in Canadian and Japanese exports, the Committee found no basic inequity in the past in the overall dollar-imbalance in Canada's favour. Since Japan achieved a surplus in its 1971 trade with Canada there are now even more compelling reasons to focus on the "quality" rather than the gross volume of trade.

There have also been expressions of Japanese concern about Canadian limitations on certain types of imports. The Committee takes the view that Canada has a relatively open market in the textile field and that the voluntary restraint system, tied to rationalization plans, is a good one. Nor does it appear that the instrument of "anti-dumping" actions has been abused.

The increasing flow of private investment, in both directions, between Canada and Japan promises growing mutual benefit. Japanese investment in Canada represents a healthy diversification of Canada's sources of development capital, and seems to be sensitive and responsive to the conditions now prevailing for foreign investment in Canada.

Another increasingly important area of co-operation with Japan is that of scientific and technological exchanges. With the important Canadian mission of March 1972, a good beginning has been made in this field, and the Committee believes that Canadians can look forward to expanding, and highly beneficial, contacts in the future.

CHINA

Canada's trade with the People's Republic of China has been significant for more than a decade and shows considerable potential for further growth.

However, the present large imbalance of trade in Canada's favour cannot be sustained indefinitely. The main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade

fairs, seems to be that these shortages are now being rectified. While total balance is not necessarily to be expected, it is probable that China will increasingly press for Canada to accept more of its exports in return for a continuing and growing place in the Chinese market.

China continues to provide a substantial and reliable market for Canadian grains. There are also encouraging signs that China will in future buy a widening range of Canadian goods, including forest and mineral products, machinery and transportation and communication equipment.

In the next few years, Canada is likely to meet increasing competition from other Western countries for the Chinese market in most product-areas. While spectacular growth should not be expected, however, the Committee believes that with the proper selling efforts, the Chinese will continue to be favourably disposed toward Canadian exports.

AUSTRALIA AND NEW ZEALAND

Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. Each of these countries has long provided a substantial market for Canadian goods, especially job-producing manufactured and semi-manufactured products.

For all concerned, it will be essential to re-negotiate the full range of mutual preferences on a bilateral basis once the Commonwealth preferential system comes to an end, as a result of Britain's entry into the E.E.C.

OTHER COUNTRIES

In general, Canada tends to have a favourable balance of trade with the developing countries of the Pacific region and especially with the least-developed among them. Various factors are involved, but major adjustments will have to be made if these countries are to be helped to help themselves by expanding their exports.

It seems likely that private investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. A formula which has been highly successful in the past, and may prove increasingly essential in the future, is the "package" approach to developing new industries.

THE CANADIAN APPROACH

In view of the urgent need for improved co-ordination in Canada's economic relationships in the Pacific, the Committee recommends that further action be taken on the Policy Paper's proposal for the establishment of a joint Pacific economic advisory council. If it can be assured that the representation of the Pacific Basin Economic Council is sufficiently comprehensive, the Committee recommends that the Government take a joint initiative with the Canadian Committee of P.B.E.C. to establish arrangements for continuing consultation on a firm and regular basis, rather than creating a new advisory council.

These are only preliminary steps, however, to the very basic new co-ordination required. The establishment and enforcement of uniform national requirements for the processing of resource exports is one pressing need. Another is for a national approach to scientific and technological innovation which will keep Canadian products marketable in the highly competitive Pacific environment.

In this competitive environment, the Committee also considers it essential that Canadian businesses receive government encouragement to export and invest abroad which is fully comparable with that provided by other countries.

Another imaginative, and well-supported, suggestion is for the formation of some kind of Canadian counterparts for the highly-successful Japanese trading corporations. These structures would provide market intelligence, negotiating facilities (including translation) and expertise and co-ordination of export production, distribution and sales. The Committee recommends that the formation of new trading structures of this kind be the first priority for discussion by the Government with the Pacific economic advisory council when such a group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada.

In the Committee's view, Canadian business groups concerned with the Pacific should also be studying actively the experience of the Canada-Japan Trade Council in Ottawa and considering the establishment of a counterpart body in Tokyo.

One field of closer co-operation which seems to have immediate potential is that of development assistance to the region's less-developed countries. The scope for co-operation is wide: through regional organizations (such as the ADB and ECAFE); through consortia and consultative groups; and through joint efforts with other medium-sized "donors" such as Australia, the Netherlands and Japan.

III CANADA'S INTEREST IN DEVELOPMENT CO-OPERATION

The Government has made it clear that development aid will be one of the main elements in Canada's future official involvement in the Pacific region. The Committee firmly supports this policy emphasis. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. Through development co-operation Canada can also best utilize its national capabilities to make a constructive contribution to the long-term peace and stability of the region.

In spite of the very good reasons for expanding aid to Pacific countries, it must be recognized that Canadian aid will be limited by the scarcity of Canadian resources in relation to the size of regional needs, by continuing commitments elsewhere in the world, and by Canada's general inexperience in the area. The Committee thus considers it essential that Canada's approach to development

co-operation in the Pacific be constructive and unostentatious in its tone, reflecting the limits of its present capabilities.

In the new Pacific aid programme, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional organizations.

On a regional scale, Canada is already active in the Pacific programmes of the World Bank group and the Asian Development Bank, and it is to be hoped that closer association with the ECAFE can soon be achieved. At a sub-regional level, support of the Mekong Committee, Asian Institute of Technology and the University of the South Pacific appear to be highly effective uses of Canadian aid funds. (A discussion of Canadian programmes in individual Pacific countries may be found in paragraphs 116 to 121).

After the cessation of hostilities in Indochina, the needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the war and its francophone capability, can play a particularly helpful part.

The Committee recommends a vigorous expansion of Canadian assistance to the countries of the South Pacific in co-operation with other outside countries concerned. It is important, however, to acknowledge the need for Canadians to learn more about this area, and to avoid creating paternalistic relationships. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

As in its report on Canada-Caribbean relations (of June 1970), the Committee wishes to stress as forcefully as possible the crucial role of expanding trade opportunities in the economic progress of developing countries. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter IIA of the Report of the Commons Subcommittee on International Development Assistance (29 May, 1971).

Canadian implementation of the Generalized Preference System (GPS) for developing countries is needed as soon as possible to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be steadily extended as circumstances permit.

Under the right conditions, the flow of Canadian private investment to these countries offers exciting potential for economic co-operation and development. The encouragement offered to potential investors by CIDA and the Export Development Corporation (EDC) is thus a valuable complement to the official aid programme.

Similarly complementary to the official programme of development assistance is the work of non-governmental agencies in the development field. While the Pacific region has not been an area of primary emphasis for these groups in the past, they are successfully responding to a growing demand and merit continuing support.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

REGIONAL CHALLENGES AND CANADIAN CAPABILITIES

Because of their own history, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lop-sided power relationships which are characteristic of the region.

It is noteworthy that Canada is the only developed nation of the Pacific region which enjoys the full range of inter-state relations with China. Since Canada also has open lines of communication with all the nations which will sooner or later be moving to strengthen their relations with the People's Republic, there appears to be a continuing potential for a modest but useful Canadian contribution in normalizing China's position in the Pacific community.

The Canadian Government does not envisage participation in military alliances with Pacific countries, or any other extensive military involvement, in the region. It has instead given priority to co-operative political and economic action to alleviate the deep-rooted causes of social and international tension. The Committee fully agrees with these priorities which are well-suited both to regional needs and to Canada's interests and capabilities.

The major element in Pacific activity involving Canada's direct security interests is in jurisdictional, coastal, and territorial protection on Canada's West Coast. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the federal government's overall capabilities to promote important national interests in the Pacific coastal region.

The Committee generally supports the continuation of Canada's limited programmes of military co-operation and training assistance with a number of Pacific countries. In the absence of a final legal settlement to the Korean War, the Committee is concerned about the possible legal and political implications of Canada's continuing representation on the Armistice Commission. These matters should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

With respect to truce supervisory functions in Indochina, the Committee, while understanding the reasons for the Government's reservations, believes it important for Canada to indicate its continued willingness to accept a role in order to help bring an end to the war in Indochina.

APPENDIX

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS (1970-1972)

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
1	October 27, 1970	Dr. Lorne Kavic, Lecturer in International Politics, University of British Columbia.
2	November 4, 1970	<i>Department of Industry, Trade and Commerce:</i> Hon. Jean-Luc Pepin, Minister; Mr. F. R. Petrie, Director of the Pacific, Asia and Africa Branch; Mr. T. M. Burns, Assistant Deputy Minister for External Services; Mr. V. J. Macklin, General Director, Office of Economics. <i>Export Development Corporation:</i> Mr. F. M. Carlton, Loan Director, Asia Area.
3	November 10, 1970	Mr. R. W. Bonner, Executive Vice-President, Administration, MacMillan & Bloedel Ltd., Vancouver, British Columbia.
4	November 24, 1970	<i>ALCAN Aluminium Limited:</i> Mr. R. A. Gentles, Planning Co-ordinator; Mr. Karel C. Bala, Assistant Secretary; Mr. R. F. Allen, Assistant to the Vice-President (Finance) of ALCAN International. <i>International Nickel Company of Canada:</i> Mr. K. H. J. Clarke, Assistant Vice-President. <i>Canadian National Committee, Pacific Basin Economic Corporation Council:</i> Mr. K. H. J. Clarke, Chairman.
5	November 25, 1970	Mr. Mark Gayn, Chief of Asia Bureau, Toronto Star, Toronto.
6	December 1, 1970	<i>Canadian Pacific:</i> Mr. A. F. Joplin, Director of Development Planning. <i>C.P. Air:</i> Mr. Ian A. Gray, Vice-President—Administration; Mr. H. D. Cameron, Vice-President—International Affairs. <i>COMINCO:</i> Mr. G. H. D. Hobbs, Vice-President, Pacific Region.
7	December 8, 1970	Dr. Hedley N. Bull, Professor of International Relations of the Australian National University, presently on sabbatical leave at the Institute of War and Peace, Columbia University, New York.
8	January 27, 1971	<i>Department of National Defence:</i> Hon. D. S. Macdonald, Minister; Brig. General G. G. Bell, Director General of Plans; Mr. William Snarr, Director of Policy Guidance, Finance Division.

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
9	February 9, 1971	Mr. Thomas Pope, Assistant Vice-President, Bankers Trust Company, New York City.
10	February 24, 1971	Mr. Chester A. Ronning, Former Canadian High Commissioner.
11	March 2, 1971	<i>Canada-Japan Trade Council:</i> Mr. Robert L. Houston, President; Mr. N. Gauthrie, Executive Secretary; Professor Keith Hay, Economics Professor at Carleton University.
12	March 9, 1971	<i>Department of Fisheries and Forestry:</i> Hon. Jack Davis, Minister; Dr. W. M. Sprules, Director, International Fisheries Branch.
13	March 11, 1971	Dr. John F. Howes, Professor of History, Department of Asian Studies, University of British Columbia.
14	April 6, 1971	Dr. Benjamin Higgins, Project Director, Centre for Research in Economic Development, University of Montreal, Montreal, P.Q.
15	April 27, 1971	<i>Canadian University Service Overseas (C.U.S.O.):</i> Mr. David M. Catmur, Director of Overseas Operations and Acting Executive Director; Mr. Robert D. H. Sallery, Editor-in-Chief, Readings in Development/Newstatements; Mr. Alfred E. Harland, Field Staff Officer in Papua-New Guinea; Mr. Jean-Marc Metivier, Director of Asian Programs; Miss Gail Ann Taylor, Assistant to Director of Fund Raising.
16	May 4, 1971	<i>Canadian International Development Agency: (C.I.D.A.):</i> Mr. Fergus Chambers, Director General of Planning; Mr. Rick Ward, Desk Officer, Asia Area.
17	September 22, 1971	<i>Department of Industry, Trade and Commerce:</i> Hon. Jean-Luc Pepin, Minister; Mr. Frank Petrie, Director, Pacific, Asia and Africa Affairs Branch, Office of Area Relations; Mr. J. L. MacNeil, Chief, Pacific Division of the same branch.
18	October 20, 1971	Dr. Phillips Talbot, President, The Asia Society, New York City, U.S.A.

Note: A number of informal meetings with experts were also held.

INDEX OF COMMITTEE PROCEEDINGS RESPECTING THE PACIFIC REGION (Third Session—28th Parliament)

Explanatory Notes:

This is an Index of the Proceedings of the Standing Senate Committee on Foreign Affairs respecting Canadian relations with the countries of the Pacific Region. These studies were carried out during the Third Session of the 28th Parliament.

Each issue is paginated separately (e.g., 2:17, 9:16, 17, 18).

For list of witnesses, titles, dates and issue numbers, see Appendix to the Committee's Report, which appears immediately preceding this Index.

Agricultural products (see separate listings; under Trade)

Aid and development (see also CESO; CIDA; CUSO; IDRC; Colombo Plan; ECAFE) 1:6, 1:7, 1:10, 2:9, 2:12, 3:8, 7:17, 9:7, 9:12, 9:22, 14:7-14, 15:10-11, 15:41, 16:7-9, 16:11, 16:12, 16:13, 16:15, 16:21, 18:8-9, 18:16-19, 18:26, 18:28, 18:34, 18:35, 18:39-40

—Asian Development Bank 2:9, 9:22, 14:16, 15:10, 16:11, 16:12, 18:16

—Asian Institute of Technology 16:12, 18:40

—Intergovernmental Group on Indonesia 14:17

—Mekong Committee and development 9:22, 16:6, 16:11, 16:19, 18:18, 18:40

—Miki proposals 9:7, 9:12, 9:16

—Private Investment Company of Asia 9:21

—South Pacific Commission 15:38, 15:41

—Southeast Asian Ministers of Education Organization 18:40

—United Nations Development Plan (UNDP) 9:22, 14:8, 16:11

—University of the South Pacific 15:41, 16:6, 16:12, 16:13

Air agreements (see also Transportation) 6:7, 6:8, 6:15, 6:16, 6:18-19, 10:21, 17:10, 18:31, 18:32

Aircraft and equipment 2:14, 2:15, 6:23, 6:35, 8:10, 8:22, 11:13, 18:27, 18:32

Airport development 2:8, 6:16, 6:35, 15:42

Alcan: brief 4:25-38

Alcanus defence arrangement 8:9-10

Aluminum 2:17, 4:6-15, 4:25-38, 15:7, 15:14, 17:13, 17:14, 18:32

ANZUS treaty 7:8, 8:6, 8:15

Asbestos 2:18, 6:14, 9:18, 18:19, 18:25, 18:32, 18:36

Asia SOCIETY (U.S.) 14:11, 18:5-15

Asian and Pacific Council (ASPAC) 7:8, 18:16

Asian studies (see also Cultural barriers; Language problems) 6:34, 13:8-11, 13:13-14, 15:14, 17:17, 18:6-7, 18:10-13

Association of Southeast Asian Nations (ASEAN) 7:8, 4:16, 18:16

Australia (see also Commercial relations; Investment; Political relations) 1:7, 4:16, 18:30-33

—foreign policy and defence 3:8, 5:8, 7:6-10, 7:15, 7:17, 7:18, 8:6, 8:10, 8:14, 8:18, 8:20, 15:11, 16:16

—immigration policy 7:17-18

—trade and economic policies 1:9, 1:10, 1:11, 1:14, 1:16, 2:13, 2:19, 4:7-8, 4:35, 6:25, 11:17, 18:31, 18:33

Balance of trade (see under Trade)

Banking (see also under Aid and development) 4:8-10, 9:8, 9:14, 11:9-10

Burma 7:14, 10:19, 14:5, 14:6, 16:20, 18:19

Business performance, Canadian (see also Feasibility studies; Investment; Joint ventures; Trade)

—competitive position 1:9, 1:10, 2:10, 2:16, 2:17, 2:19, 3:12, 3:14, 3:15, 4:6, 4:7, 4:13, 4:14, 4:37, 4:38, 5:9, 5:19, 6:17, 6:20, 7:10, 9:7, 9:13, 11:6, 11:13, 11:20, 12:10, 12:11, 17:8, 17:11, 17:13

—industrial and market research 2:7, 2:14, 3:13, 3:16, 4:7, 4:16, 4:17, 4:20, 4:23, 4:42-45, 4:48, 6:7, 6:16, 6:22, 6:23, 6:28, 6:30, 6:34, 11:13-14, 11:20, 13:10

—language training 3:6, 3:10-11, 6:17-18, 13:9-10

—marketing and promotion 1:10, 1:14, 2:7, 2:8, 2:16, 2:17, 3:10-12, 3:14-15, 3:17, 4:7, 4:17, 5:5-6, 5:10, 6:16-17, 8:22, 9:12, 9:13-14, 11:7, 11:14, 11:23-25, 13:9, 17:11, 17:16, 17:17

Business-government co-operation (see also Export Development Corporation; Pacific Basin Economic Council; Trade Commissioner Service; Trade Fairs; Trade Missions) 3:12, 3:16, 4:7, 4:18, 6:16, 11:11-12, 11:14, 13:8, 13:10, 13:13, 13:14, 17:14, 17:16

Cambodia (see also under Defence policies; Vietnam War) 3:8, 7:6, 7:11, 8:7, 8:20, 9:22, 14:16, 15:13, 15:35, 16:3, 16:19, 18:18

Canada-Japan Ministerial Committee 2:8, 9:6, 9:7, 9:13, 9:19, 17:5

Canada-Japan Trade Council 3:6, 3:7, 11:5-25

Canadian Economic Policy Committee 2:13, 3:6

Canadian Executive Service Overseas (CESO) 18:17

Canadian International Development Agency (CIDA) (see also Aid and development) 2:6, 2:8, 2:12, 2:14, 8:11, 14:7, 14:9-11, 14:16, 14:17, 15:6, 15:11, 16:5-22, 17:16

Canadian Pacific: brief 6:5-9, 6:26-35

Canadian University Service Overseas (CUSO) 15:5-46, 18:39, 18:40

—brief: 15:16-15:46

Canadian Wheat Board (see also Wheat) 2:8, 17:11

China, People's Republic of (see also Commercial relations; "Overseas Chinese"; Political relations) 5:5-22, 10:5-21

—admission to the UN 5:5, 5:8-9, 7:18, 10:11

—domestic developments 5:7, 5:10-11, 5:13-14, 5:15-18, 7:12, 8:6, 10:6-12, 10:16, 10:18, 13:5

—"Cultural Revolution" 1:12, 5:10, 5:13-14, 7:7, 7:12, 10:11, 10:20, 10:21

—economy 3:10, 5:19-20, 10:20, 10:21, 17:8, 17:9, 17:12

- foreign policy and defence 1:11, 1:17, 3:9, 5:6-10, 5:12-16, 5:20, 5:22, 7:7-8, 7:11, 7:13, 7:14, 8:11, 8:17, 8:18, 8:19, 9:6, 9:13, 10:12, 10:14, 10:15-17, 10:19, 13:5, 14:12-13
- recognition of 1:11, 2:8, 3:9, 4:19, 5:5, 5:8, 5:9, 5:12, 5:15, 6:7, 6:8, 7:11, 7:18, 8:11, 9:6, 9:11, 10:11, 10:20, 15:13
- trade 1:11, 2:12, 2:13, 3:9, 4:19-20, 5:5, 5:9, 5:16, 5:17, 5:19, 7:10, 8:22, 10:21, 17:6-8, 17:11, 17:13, 17:15
 - Canton Trade Fairs 2:8, 2:10, 2:13, 2:16, 5:6, 5:9, 5:12, 8:22, 17:7, 17:10, 17:14-15
- China Task Force (see Trade Missions)
- Coal 2:10, 2:17-18, 6:7, 6:10, 6:13, 6:19, 6:37, 8:22, 9:18, 9:20, 11:6, 11:7, 17:14
- Colombo Plan 1:7, 9:22, 14:11, 14:14, 14:16, 14:17, 16:5, 16:15, 18:16, 18:18, 18:19, 18:28
- Cominco: brief 6:9-11, 6:36-38
- Commercial relations, Canadian (see also Investment; Trade) with:
 - Australia 1:8, 1:10, 1:14, 1:15, 2:9, 2:12, 2:15, 2:19-20, 4:8, 4:37, 17:12, 17:18, 18:31, 18:33
 - Burma 18:19
 - Cambodia 18:18
 - China 1:9, 1:11, 2:8, 2:12, 3:9, 3:10, 3:11, 4:34, 5:5-6, 5:12, 5:17, 5:19, 6:10, 6:18, 7:11, 10:12, 10:21, 17:5-18
 - Hong Kong 4:6, 4:33, 18:29
 - Indonesia 14:14, 14:16-17, 15:8, 15:9, 16:5
 - Japan 1:9, 1:12-13, 2:8, 2:11, 2:13, 2:17-18, 2:20, 3:6, 3:7, 3:11, 4:6, 4:37, 4:46-47, 6:6, 6:7, 6:9-11, 9:6-10, 9:19-22, 11:5-25, 13:10, 15:14, 15:21-22, 17:12, 17:13
 - Korea, Republic of 3:9, 18:25-26
 - Laos 18:23
 - Malaysia 2:12, 2:15, 4:33, 15:9, 18:34-35
 - New Zealand 1:8, 1:10, 2:9, 2:12, 2:15, 2:19-20, 4:6, 4:36, 4:37, 6:22, 17:18, 18:32, 18:33
 - Oceania 15:9
 - Philippines 2:15, 4:33, 15:9
 - Singapore 2:14, 2:15, 18:35
 - Taiwan 1:13, 2:15, 10:15, 10:22
 - Thailand 2:4, 4:33, 18:27
 - Vietnam, Republic of 18:22
- Communications and equipment (see also Transportation) 2:7, 2:15, 6:7, 6:35, 10:21, 11:20, 16:5, 17:9, 17:13, 18:10, 18:17, 18:36
- Copper 6:10, 6:36, 6:37, 9:18, 9:20, 9:21, 17:14, 18:17
- Cultural barriers (see also Asian studies; Language problems) 1:8, 3:6, 3:10, 9:5-6, 10:12-13, 10:18, 11:23, 13:5, 13:8, 18:6, 18:13
- Cultural Exchanges 4:18, 5:12, 5:17-18, 8:20, 9:6, 9:20, 15:14, 17:12, 18:8, 18:12
- “Cultural Revolution” (see under china)
- Defence policies, Canadian (see also Security, regional) 1:10-11, 8:5-21, 9:7
 - fisheries protection 8:6, 8:8, 8:16-17
 - International Control Commissions and peacekeeping 1:11, 8:6, 8:7, 8:13-14, 8:19, 9:6, 10:10, 15:13, 15:24, 16:16, 18:18
 - Korean War 1:11, 8:6, 8:14, 10:10, 15:12
 - military Co-operation in Pacific 8:6, 8:10-11, 8:14, 8:18, 8:20
 - pollution control 8:15-16
 - standardization agreements 8:10, 8:14, 8:20
 - World War II 1:10, 8:6
- Development (see Aid and development; Investment; Southeast Asia)
- Domestic International Sales Corporation (DISC) 4:7
- Economic Commission for Asia and the Far East (ECAFE) 2:9, 9:22, 14:8-9, 14:16, 18:16
- Education Assistance (see CIDA; CUSO; Technical assistance)
- Expertise and management training (see also CIDA; CUSO; PBEC) 1:7, 2:6, 2:7, 2:12, 3:8, 4:13, 4:15, 4:17, 4:18, 4:20, 4:21, 6:9, 6:34, 8:10, 8:20, 9:20, 14:10, 14:11, 15:40-42, 17:12, 18:17
- Expo '70 (Osaka) 2:9, 3:15, 6:20, 8:20, 8:22, 9:9-10, 9:20, 11:11, 13:10
- Export Development Corporation 1:9, 2:9, 2:14-15, 3:14, 3:16, 4:7, 4:9, 4:10, 4:19, 4:37, 6:20
- Export-Import Bank (U.S.) 4:8-10
- Export (see under Trade)
- Feasibility studies (see also Business performance; EDC) 2:7-8, 2:14, 6:7, 6:23
- Fertilizers 2:18, 6:36-37, 9:21
- Fiji 1:7, 15:10, 15:38, 15:42, 16:12, 17:18
- Fisheries (see also under Defence; separately listed treaties) 12:5-21
- Five-Power Defence Arrangement 7:8-9, 8:6
- Foreign policy (see Defence policies; Policy Paper; Political relations; separately listed countries)
- Forestry (see Logging equipment; Lumber; Pulp and paper)
- Free Trade (proposals) 4:7, 4:37, 9:16, 9:21, 11:10, 11:16, 11:24-25
- General Agreement on Tariffs and Trade (GATT) 2:10, 2:13, 9:21, 18:27, 18:34
- Generalized Preference Scheme 2:9, 15:9
- Great Britain, Pacific interests 1:11, 1:17, 5:12, 7:8, 7:9, 7:11, 7:13, 8:6, 11:15, 16:12, 16:16, 17:15
- Hong Kong 1:7, 1:11, 1:12, 4:11, 4:33, 5:18-19, 6:20, 7:13, 16:11, 16:19, 18:29
- Immigration 1:6-8, 1:16, 9:22-23, 10:21, 10:22, 11:19, 14:17, 15:10, 15:21, 16:6, 18:17, 18:20, 18:22, 18:23, 18:26, 18:28, 18:33
- Imports (see under Trade)
- INCO: brief 4:39-55, 15:14, 15:43, 16:14
- Indochina (see under Defence; Southeast Asia; separately listed countries; Vietnam War)
- Indonesia 2:8, 3:8, 3:13, 3:16, 4:15, 4:17, 5:8, 5:21-22, 6:23, 6:25, 7:8, 7:9, 8:11, 8:17, 8:19, 8:20, 14:5-7, 14:11-13, 14:17, 15:8, 15:11, 15:12, 15:34, 16:7, 16:8, 16:13, 16:14, 16:17
- International Control Commissions (see under Defence policies)
- International Development Research Centre (IDRC) 6:34, 15:10, 15:44, 16:7, 18:5, 18:40
- International North Pacific Fisheries Commission 12:6, 12:8, 12:9, 12:12
- International Pacific Halibut Commission 12:6
- International Pacific Salmon Fisheries Commission 12:6, 12:8
- Investment, Canadian (see also Commercial relations; EDC; under Japan; Joint ventures; separately listed corporations) 1:10, 2:8, 2:14, 3:16-17, 4:6-8, 4:13, 4:16-19, 4:21-22, 4:29, 4:37, 4:45, 4:54, 6:7, 6:9-10, 6:25, 6:28, 6:37-38, 14:11, 15:7-8, 15:21, 15:42-43, 16:13-14
 - in Australia 1:10, 3:15-16, 4:6, 4:7, 4:8, 4:16, 4:17, 4:35-36, 4:44-46, 6:11, 6:37, 11:17, 18:31
 - in China 4:14, 4:37

- in Hawaii 6:11
- in Indonesia 3:16, 4:16, 4:17, 4:43, 4:46, 14:11-12, 16:14
- in Japan 2:17, 2:18, 4:6, 4:7, 4:20, 4:47, 6:9, 6:11, 6:28, 6:37, 9:8, 9:15, 11:9, 11:17
- in Malaysia 2:15, 3:13, 3:16, 4:6, 4:13, 4:33, 18:35
- in New Caledonia 4:16, 4:21, 4:42, 4:43, 4:46, 15:43
- in New Zealand 4:6, 4:8, 4:16, 4:36, 18:32
- in the Philippines 2:15, 4:16, 18:17
- in Singapore 18:35
- in the Solomon Islands 4:17, 4:44, 15:43
- in Taiwan 2:15
- in Thailand 4:6, 4:33, 18:40
- Iron ore 2:18, 6:9, 6:10, 6:23, 9:18, 9:21
- Japan (see also Canada-Japan Ministerial Committee; Commercial relations; Political relations) 9:5-23, 11:5-25, 13:5-17
 - aid policies 1:18, 7:16-17, 9:22, 14:8-9, 16:15
 - business methods 1:6, 2:10, 2:17, 3:10, 4:11, 4:12, 4:15, 4:18, 6:10, 6:17, 9:7, 9:11-12, 11:7, 11:11, 11:12, 11:13, 11:19, 13:7, 15:14-15
 - economy 3:6-7, 3:13, 3:18, 4:12, 4:17, 4:31-32, 4:37, 6:24, 7:16, 9:15, 9:17, 9:19, 11:8-9, 11:18, 11:20, 11:23, 11:24, 13:7-8, 13:12, 13:15, 13:16-17, 15:14, 17:13-14
 - foreign policy and defence 1:12, 1:15-16, 1:18, 7:13, 7:15, 7:16-17, 8:18-20, 9:5-7, 9:19, 9:22, 11:22, 13:7, 13:16
 - investment 1:16, 1:17, 2:9, 3:15, 4:21, 6:6, 6:23, 7:17, 9:7, 9:15, 9:21, 11:9, 11:18, 11:24
 - liberalization of protectionist policies 2:8, 2:11, 2:18, 3:15, 4:11, 4:17, 4:19, 4:49, 6:7, 6:10, 6:21, 9:8, 9:14, 9:15, 9:21, 9:22, 11:9, 11:17, 11:24
 - trade 1:16, 1:18, 2:10, 2:13, 2:17, 3:13, 4:15, 6:18, 7:17, 9:6, 9:7, 9:11, 9:15, 9:16-17, 11:15, 11:18, 16:15, 17:13, 17:15
- Joint ventures (see also Investment) 2:6, 2:8, 2:14, 3:7, 3:14, 3:16, 4:7, 4:17, 4:27, 4:31, 4:33, 4:36, 6:7, 6:9, 6:11, 6:18, 6:21, 9:8, 9:21, 11:17, 11:18, 12:6, 15:9
- Korea, Republic of (see also Fisheries; Korean War; North Korea) 2:15, 3:8, 3:9, 7:6, 8:20, 9:11, 12:6, 12:7, 12:10, 12:13, 12:14, 16:6, 16:13, 16:19, 18:25-26
- Korean War (see also under Defence policies) 1:17, 3:8, 4:14, 4:46, 7:6, 7:7, 7:11, 7:12, 7:15, 8:6, 8:19, 10:10, 10:14
- Language problems (see also Asian studies; Business performance) 3:6, 6:17, 6:18, 10:17, 11:7, 13:8-10, 13:11, 13:14, 13:16, 17:17, 18:9, 18:11
- Laos 3:8, 8:20, 9:22, 15:35, 16:13, 16:19, 18:23
- Law of the Sea Conferences 8:15, 12:6, 12:9, 12:15-16, 12:18
- Lead 6:9, 6:10, 6:11, 6:18, 6:36
- Logging equipment 2:7, 2:15, 3:13, 3:14, 6:7, 17:10, 18:19
- Lumber 1:14, 2:12, 6:7, 9:18, 9:21, 10:22, 18:19, 18:33, 18:36
- MacMillan Bloedel Co. (see also Pulp and Paper) 3:5, 3:18
- Malaysia 2:12, 2:15, 3:8, 3:13, 3:16, 4:11, 4:13, 4:15, 4:33, 5:8, 6:16, 6:23, 7:8, 7:9, 8:10, 8:11, 8:20, 14:5-6, 14:7, 14:12, 14:14, 15:9, 15:11, 15:31-32, 16:5, 16:6, 16:13, 16:14, 16:15, 16:20, 18:34-36
- Manufactured goods (see under Trade; separate listings, e.g. Aircraft, Textiles)
- Mekong Committee (see under Aid and development)
- Miki proposals 9:7, 9:12, 9:16
- Ministerial meetings (see Canada-Japan Ministerial Committee; Trade missions)
- Missionary activities 1:6, 1:10, 10:13-14, 10:17, 13:11, 13:12, 13:13
- Naval visits 8:20
- New Caledonia 4:16, 4:20, 4:21, 9:18, 15:7, 15:41
- New Guinea 1:11, 15:42
- New Zealand (see also under Commercial relations; Investment) 1:7, 4:8, 4:16, 6:38, 18:30-33
 - foreign policy and defence 7:8, 8:6, 8:10, 8:14, 8:18, 8:20, 18:32
 - trade 1:16, 2:13, 4:7-8, 9:16, 15:42, 18:33
- Nickel 2:8, 4:16-23, 4:39-49, 9:18, 17:13, 17:14, 18:17
- North Korea (see also Korean War) 12:9, 18:24
- North Pacific Fur Seal Commission 12:5
- North Vietnam (see also under Defence policies; Vietnam War) 10:15, 18:21
- Nuclear armaments (see under China; under Japan; Security, regional; U.S.A.; U.S.S.R.)
- Nuclear reactors, sale of 2:6, 2:7, 2:18
- Oceania (see also under Aid and development; Investment; separately listed countries) 4:16, 6:23, 15:9-11, 15:37, 15:40-44, 16:6, 16:12
- Oil drilling equipment 3:14
- Okinawa 7:15, 9:6
- "Overseas Chinese" 5:7, 5:21, 10:7, 14:13, 18:39
- Pacific Basin Economic Council (PBEC) 1:9, 2:9, 3:15, 4:17, 4:50-55, 6:12, 6:22, 9:21, 11:16, 11:24
- Pacific Economic Advisory Committee 6:7, 6:16, 11:11, 11:16, 11:24, 11:25
- Pacific Science Congress 15:44
- Papua and New Guinea 15:11, 15:29-30, 15:40; 16:16
- Peacekeeping (see under Defence policies)
- Philippines 1:8, 4:16, 7:8, 9:18, 14:5, 14:6, 14:7, 15:7, 15:12, 16:5, 16:6, 16:13, 16:15, 16:19, 18:16-17
- Pipelines (see under Transportation)
- Policy Paper, Canadian 2:6, 4:16, 4:18, 6:16, 6:29, 6:34, 8:5, 8:7, 9:7, 11:11, 11:24, 15:35, 15:41, 15:43, 16:8
- Political relations, Canadian (see also Defence policies; Policy Paper) with:
 - Australia 2:8, 7:10, 8:14, 18:30-31
 - Burma 18:19
 - Cambodia 18:18
 - China 5:5, 5:8, 5:12, 5:14-15, 5:20, 7:11, 7:18, 8:11, 10:10, 10:11, 10:20, 17:5, 17:17
 - Indonesia 14:14, 14:16
 - Japan 2:8, 8:20, 9:5-6, 9:9-10, 9:19-20, 11:16, 11:23-24, 17:17
 - Korea, Republic of 18:25
 - Laos 18:23
 - Malaysia 14:14, 18:34
 - New Zealand 2:8, 18:32
 - North Vietnam 18:21
 - Philippines 18:16
 - Singapore 18:35
 - Thailand 15:13, 18:27
 - Vietnam, Republic of 18:22

- Pollution control (see also Law of the Sea Conferences) 8:15-16, 12:9, 12:10, 13:15
- Population explosion 5:16-17, 14:6
- Provinces, Pacific relations 1:9, 2:21, 3:5, 3:6, 3:14, 4:17, 8:22, Pulp and paper (see also Lumber) 9:17, 9:18, 9:20, 11:18 1:14, 2:18, 3:13, 3:14, 3:16, 6:22, 9:21, 10:22, 14:16, 17:6, 17:13, 17:14, 18:18, 18:19, 18:23, 18:33
- Quotas (see Tariffs and ...)
- Railways (see under Transportation)
- Rapeseed 2:12, 2:18, 2:20, 8:22, 9:21, 17:12
- Rationalization of industries 1:13, 2:11, 2:12, 3:7, 12:11
- Raw materials, upgrading of exports (see also separate commodity listings; Trade) 3:7, 3:14, 4:19, 4:37, 6:10, 6:20-21, 9:7, 9:18, 9:21, 11:7, 11:10-11, 11:12, 11:14
- Research and development (see under Aid and development; Asian studies; under Business performance; IDRC; Scientific exchanges; Technological exchanges)
- Resources development (see Investment; Joint ventures; Raw materials; separate listings of corporations and products)
- Risk-sharing programmes (see EDC; Feasibility studies)
- Scientific exchanges (see also Technological exchanges) 9:19-20, 11:14, 12:7
- Seabed, protection of (see Law of the Sea Conferences)
- Security, regional (see also Defence policies under Australia; China; Japan; U.S.A.; U.S.S.R.; Vietnam War) 5:12, 5:16, 5:20, 5:22, 7:5-18, 8:6, 8:7, 8:11, 8:17-18, 8:19-21, 9:7, 15:11, 18:16, 18:18, 18:30, 18:38
- Shipping (see under Transportation)
- Singapore 1:7, 4:33, 5:8, 7:8, 7:9, 8:10, 8:11, 8:19, 8:20, 9:7, 16:11, 16:13, 16:19
- Southeast Asia (see also Aid and development; separately listed countries; Security, regional; Vietnam War) 2:6, 2:13, 3:8-9, 3:13, 3:16, 6:25, 7:9, 7:17, 8:11, 14:5-17, 15:7, 16:5-6, 16:11, 16:13-14, 16:19, 16:22, 18:39-40
- South-East Asia Treaty Organization (see also Security) 7:8, 8:6, 8:7, 18:16
- South Korea (see Korea, Republic of)
- South Pacific (see under Aid and development; Australia; Investment; New Zealand; Oceania)
- South Vietnam (see Vietnam, Republic of)
- Steel (see also Iron ore; Raw materials, upgrading of) 6:9, 6:11, 17:13, 17:14
- Student exchanges and scholarships 6:34-35, 9:6, 9:15, 9:19, 11:7, 13:10, 14:10, 15:41, 16:5, 16:6, 16:11, 16:12, 18:19
- Taiwan 2:13, 3:8, 5:8, 5:9, 6:38, 7:7, 7:8, 7:11, 7:13, 7:16, 9:6, 9:11, 9:12, 10:11, 10:15, 10:17, 10:22, 14:13-14, 17:9
- Tariffs and quotas (see also under Japan) 1:15, 2:9, 2:10, 2:13, 2:18, 2:19, 4:6-8, 4:19, 4:49, 6:7, 6:11, 6:24, 9:21, 15:9
- Tax laws, corporation 4:7, 4:14-15
- Technical assistance (see Aid and development; CIDA; CUSO; under Defence; Expertise and management training)
- Technological exchanges (see also Scientific exchanges) 2:7, 4:18, 4:23, 5:18, 6:7, 8:10, 8:14, 8:20, 9:20
- Textiles (see also Voluntary restraints) 1:8, 1:12, 1:13, 2:8, 2:10, 2:11, 3:11, 3:16, 6:24, 9:10, 9:20, 10:21, 10:22, 17:7, 17:9, 18:26, 18:35
- Thailand 4:6, 4:11, 4:15, 4:33, 6:38, 7:9, 7:11, 10:19, 13:9, 14:6, 15:7, 15:13, 15:26-28, 16:5, 16:6, 16:12, 16:13, 16:19, 18:5, 18:27-28, 18:38-40
- Tourism (see also Air agreements) 2:6, 2:9, 4:18, 5:6, 6:8, 6:20, 6:22, 6:31, 6:32, 13:8, 15:21, 15:42, 15:43
- Trade (see also Commercial relations; Business performance; Free Trade Area; Rationalization of industries; separately listed countries and products; Tariffs and quotas; Transportation; Voluntary restraints) 1:8-9, 1:12, 1:13, 2:5-21, 3:9, 3:13, 4:6, 4:19, 4:37, 6:6, 15:9, 17:5-18
—balances 1:13, 2:12-14, 2:20, 3:9, 9:10, 9:17, 17:8, 17:15
—exports
—agricultural products 1:9, 2:12, 2:18, 2:20, 5:9, 8:22, 9:21, 10:21, 10:22, 11:18, 11:20, 12:11, 14:6, 17:12, 17:13, 17:15, 17:16, 17:17, 18:17, 18:32
—manufactured goods 1:8, 1:9, 2:8, 2:12, 2:14, 2:15, 2:18, 3:14, 9:8, 11:9, 11:20, 14:16, 15:43, 17:8, 17:9, 17:10, 17:13, 17:14, 17:16, 18:17, 18:19, 18:25, 18:33, 18:36
—resource products 1:9, 1:12, 1:16, 2:18, 3:14, 4:6, 4:9, 4:17, 4:30-36, 4:46-47, 4:49, 6:7, 6:9-10, 6:14, 6:36-37, 9:18, 9:20, 9:21, 10:21, 10:22, 11:22, 11:24, 13:15, 17:9, 17:13, 17:14, 18:25, 18:27, 18:29
—imports
—agricultural products 2:19-20, 10:21, 10:22, 12:10, 17:12, 18:32, 18:36
—manufactured goods 1:8, 1:12, 2:11, 2:12, 2:20, 3:16, 9:20, 10:21, 10:22, 17:9, 18:29
—resource products 2:12, 10:22, 14:6, 15:9, 17:9, 18:19, 18:33, 18:36
statistics 1:8, 1:9, 2:6, 2:18, 2:20, 4:30, 6:27, 8:22, 10:21, 10:22, 11:6, 17:7, 17:12, 17:14, 18:27, 18:33, 18:36, 18:37
- Trade Commissioner Service 1:10, 2:8, 2:15, 2:16, 2:21, 3:12, 3:16, 8:22, 11:7, 14:14
- Trade Fairs 1:9, 1:10, 2:8, 2:10, 2:13, 2:16, 5:6, 5:9, 5:12, 8:22, 17:7, 17:10, 17:14-15
- Trade Missions 2:8, 3:9, 3:12, 3:15, 3:17-18, 17:5-18
- Trading corporations 5:9, 5:17, 6:16-17, 6:21, 8:22, 11:13, 17:6
- Transportation 3:13, 4:6, 4:18, 6:5-9, 6:11, 6:35, 9:16, 9:17
—air 6:6, 6:8-9, 6:19, 6:20, 6:22-23, 6:30-35
—pipeline 6:7, 6:19, 9:21
—rail 6:6-7, 6:13, 6:19, 9:21
—shipping 3:13, 6:5-7, 6:12, 6:14, 6:15, 6:18, 6:21, 6:26-29, 9:16, 15:43
—port facilities 6:6, 6:12, 6:13, 6:21, 9:16, 9:20-21, 11:6, 12:7
- United Nations (see also under Aid and development; ECAFE) 5:9, 7:6, 8:14, 8:19, 10:10, 10:11, 10:14, 10:20, 10:22
- United States, Pacific interests (see also Asia Society; Vietnam War)
—aid 14:8-11, 15:11, 15:13, 16:15, 18:8-9
—foreign policy and defence 3:8-9, 7:5, 7:6, 7:8, 7:11, 7:12-13, 7:15, 8:10, 8:14, 8:17, 8:19, 9:6, 10:10, 10:13, 12:5, 12:6, 12:7-8, 12:19, 13:10-11, 14:8, 18:7, 18:14-15
—China policy 1:11, 5:8, 7:13, 10:7, 10:9, 10:11, 10:22, 17:9

- trade and investment 1:9, 2:10, 4:7-8, 4:38, 8:15, 9:13-15, 14:11, 17:9, 18:7
- Uranium (see also Nuclear reactors) 1:12, 2:18, 2:19, 9:20, 9:21
- U.S.S.R., Pacific interests (see also Fisheries; Security, regional) 7:6-7, 7:10, 7:11, 7:12, 7:14, 7:15, 8:8, 8:11, 8:16, 8:19, 10:9, 12:5-12, 12:20, 13:10, 13:6, 14:8, 14:12
- Vietnam, Republic of (see also North Vietnam) 3:8-9, 7:13, 14:8, 14:10, 15:35-36, 16:6, 16:13, 16:16, 16:17, 16:19, 16:21
- Vietnam War (see also under Defence) 3:8-10, 7:6, 7:8, 7:9, 7:12, 8:5-6, 8:11, 8:19, 10:10, 14:8, 15:5, 15:8, 15:13, 18:7
- Voluntary export restraints 1:8, 2:10, 2:11, 2:13, 9:20, 9:21, 10:21, 10:22, 17:9, 18:26, 18:35
- Wheat 2:10, 2:12, 2:13, 2:15, 2:17, 5:9, 9:16, 9:21, 10:21, 10:22, 17:6, 17:8, 17:11, 17:13, 17:15, 17:16, 18:17, 18:19, 18:29, 18:36
- Yen, revaluation of 9:17, 9:18, 11:16-17, 17:9
- Zinc 6:9, 6:10, 6:36, 6:37, 17:13



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

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THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

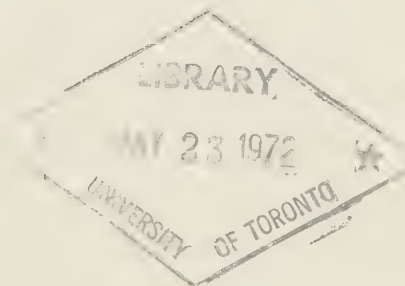
The Honourable JOHN B. AIRD, *Chairman*

Issue No. 2

TUESDAY, MARCH 21, 1972

First Proceedings Respecting:
Canadian Relations with the Expanded
European Communities

(Witness:—See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

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Connolly (<i>Ottawa West</i>)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk—(30).
Lang	

Ex Officio Members: Flynn and Martin
(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate
Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, March 21, 1972.

(3)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Connolly (*Ottawa West*), Croll, Eudes, Fergusson, Grosart, Heath, Lafond, Laird, Lapointe, Martin, Macnaughton, McElman, McNamara, Sparrow, White and Yuzyk. (19)

Present but not of the Committee: The Honourable Senator Smith.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee commenced its study of Canadian Relations with the expanded European Communities.

WITNESSES:

Department of External Affairs:

The Honourable Mitchell Sharp,
Secretary of State for External Affairs.

Mr. Michel Dupuy,
Assistant Under-Secretary of State
for Economic and Social Development.

At 5.08 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E.W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 21, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, this afternoon's meeting is the first in our study of Canada's relations with the expanded European Communities. Although our inquiry may spend considerable time looking at the economic aspects of our relationship with the new Europe, there are broader implications for Canada as well. What will be the effect of European integration on the Atlantic Alliance? What effect will the new European economic giant have on Canadian export trade? What effect would European monetary integration have on international currency problems and the Canadian monetary position? These are a few of the questions that the Canadian people must increasingly ask.

Today we are most fortunate to have as our lead-off witness the Honourable Mitchell Sharp. The minister is in the best position to give us an overview of the whole range of Canada's present relations with the Communities. Undoubtedly, he and his department have become more preoccupied with this problem in the last two years as Britain's entry apparently has become more assured. Canada's contacts have accordingly become more numerous with the EEC. During 1970 and 1971 Mr. Sharp paid several visits to EEC officials in Brussels. He has held discussions with each of the member states and Britain, and he received in Ottawa both the Right Honourable Geoffrey Rippon, the chief negotiator for British entry, and Mr. F.M. Malfatti, President of the Commission of the European Economic Communities. Mr. Ralf Dahrendorf, the Commissioner for External Relations and External Trade, will visit Canada next month.

Mr. Sharp has reported that during these conversations he attempted to stress Canada's continuing need for Europe, and to urge that the enlargement of the Common Market should not take place at the expense of third countries like Canada. The committee will be very interested in hearing his assessment of the success he has had in making the Europeans more aware of the Canadian position, and his thoughts as to what long-term as well as short-term effects the enlargement will have on Canada.

Mr. Sharp is accompanied today by Mr. Michel Dupuy.

Following our usual procedure, I have asked Senator Grosart if he will lead the questioning. Senator McNamara has indicated that he will follow, and the Chair will recognize other senators in due course.

Mr. Minister, on behalf of the committee I am very pleased to welcome you and to invite you to make your opening remarks.

Hon. Mitchell Sharp, Secretary of State for External Affairs: I am grateful for being able to appear before you. You have chosen a timely and important topic to examine. Canada's developing relationship with the European Economic Communities is of increasing importance. It is one of the preoccupations of the Government in foreign policy. We want these relations to be closer. We welcome your examination of them and we shall look forward to your suggestions. Indeed, during your own travels to Europe, you will be able to assist our efforts in this direction.

For all these reasons, I wish to provide a framework for your consideration of these relations.

First, what is the actual state of our relations with the ten countries that will presumably make up the enlarged EEC? You are aware of the closeness of the ties forged during two world wars and our post-war alliance. The EEC now contains both our founding nations, and, as well, other countries of birth of many Canadians. The two most used working languages of the new Europeans are the two official languages of Canada. I do not suggest that this alone provides a basis for new relations. But I do think that we speak the same language as the Europeans in many important respects.

We admire the imaginative concept that the enlarged Community provides for Europe's potential.

Our Prime Minister underlined this potential in his messages of congratulation to Prime Minister Heath and to the Presidents of the EEC Commission at the time the new members signed the Treaty of Accession in January.

Messages were sent also to the heads of government in Ireland, Norway and Denmark. Mr. Trudeau wrote:

Canadians admire the audacity of concept of the new Community and skillfulness with which it has been designed. We are confident that the economic strength which will flow from it will be employed in a fashion of benefit not just to the partners but to all members of the International Community. A co-operating, prospering, Europe has much to offer the world in friendship, in trade, in economic assistance and in example.

In political terms, the entire Atlantic world is going to be affected by this new dynamic Europe which is taking shape before our eyes. Adjustments are going to have to be made in recognition of the new balance which will come about in the Western world. For its part, the United States has long wanted the Europeans to assume a greater share of the burden of ensuring their own security. These

two tendencies have a cumulative effect on the way the Atlantic Alliance—as we have known it since the war—will work in future. European unity is by no means incompatible with stronger ties with Europe's major partners. Thus, there are problems of adjusting relations as between the Western countries. These require solutions not only for their own sake but also because solidarity in the West is as important as ever in an era of rapidly evolving relations with Eastern Europe.

As Western relations evolve, it is natural for Canadians to worry over the possibility that tension may develop between Europe and the United States. There is an interaction among relations between the United States and Europe, our own relations with the United States, and our relations with Europe. The Government's review of foreign policy sought to demonstrate that a policy that attempts to diversify Canada's relations, inevitably draws Canada closer to Europe. Equally—as the monetary and trade crisis of last year made us aware—a breakdown in the mechanisms governing relations between the United States and Europe can result in the isolation of Canada in North America.

From the economic point of view the new Europe raises equally far-reaching considerations. By 1980 the imports of the enlarged EEC from the outside world could soar to 130 billion dollars. Canada—the world's fourth exporter after the EEC, the United States and Japan—must take the Common Market very seriously. The ten countries already form what is by far the world's largest trading unit; they imported over seventy billion dollars' worth of goods from the outside world last year. Of these seventy billion dollars' worth over two billion seven hundred million dollars' worth of goods came from Canada. This represented 17% of our total exports and about half of our exports outside North America, making the EEC our second largest trading partner by a considerable margin.

Yet we can do much better. We shall have to do much better. Since 1958, Canadian exports to the EEC have increased greatly. They have not, however, kept pace with the increase in total EEC imports from the outside world. Our share of those markets has declined. Just as important, our exports to the EEC have not followed the trend in EEC imports toward manufactures and processed goods and away from primary materials and commodities. It is here, particularly in sectors of intensive technology, that we shall have to improve greatly.

It has not been easy to assess the cause of our difficulties in this category of exports to the EEC. Access has been a problem for a number of products, including some of interest to Canada. But this problem should not be exaggerated. By and large, the common tariff of the European Community is low. In spite of protective policies in the Agricultural sector, the Community remains a large agricultural importer. Other world traders have done very well in this EEC market. Certainly the Americans have with their export of sophisticated manufactures to the EEC, although they have been helped by their massive investment in Western Europe. Much of the difficulty probably lies with our industrial structures and trading habits themselves. We cannot sell too well what we do not make, obviously. For this reason, we are thinking about our general policies toward the EEC very much in terms of policies on which we

are working in other areas: energy policy, investment policy, industrial policy generally—including policy on secondary industry and policy on research and development—and other related policy studies. Our success in realizing our own potential could well be related to some extent to the EEC's success in doing the same thing. We should develop a degree of interest in this expanding but difficult market in keeping with its potential and with what we are doing, say, in the United States market.

I mentioned that we spoke the same language.

This is partly because we share some of the same problems. Many of you will have read the book by Jean-Jacques Servan-Schreiber of a few years ago which has by now become something of a classic, *Le Défi Américain*: The American Challenge. You will recall that *Le Défi Américain* documents the difficulties the Europeans have had in building big enough companies in technologically sophisticated fields—to generate sufficient capital—to finance sufficient research and development—to permit the innovation in technology—to make these companies competitive. Meanwhile, European firms have shown a tendency to sell out more often to American multinationals than to a European competitor. Put in these terms, the Europeans have a problem with which we have had some experience.

Common problems do not necessarily make partnerships. We would all, I am sure, prefer to choose our bedfellows on some basis other than misery. Moreover, I think that both the EEC—which has wrought an economic miracle—and Canada—which last year led the world in growth in industrial production—are rather buoyant than anything else. But there are problems. To the extent these are common to both the EEC and to Canada, we can help each other to develop solutions to our mutual benefit. This is the basis for partnership and this is the time to make the effort required.

In recent years, we have been trying hard to develop closer economic relations in the field of sophisticated manufactured goods. We have sent technological missions and trade missions to Europe. We have had some good results. But now I think that we shall begin to get better results. I do not know if the Europeans have had the political will in the past to make the effort necessary. They may have been inhibited by reservations about the degree to which Canadian interests were nationally distinct, and about our wish to co-operate in the future. Until recently, I doubt if we demonstrated this clearly enough to the Europeans to distract them from their preoccupations with internal consolidation. Both Mr. Pepin and myself have brought this to their attention in our visits to European capitals over the last year and a half, as the Chairman mentioned in his opening remarks.

Of course, we shall also be raising with them our export interests which have been adversely affected by Britain's joining the EEC: over 40% of our 1971 exports to the United Kingdom of over one billion three hundred millions dollars could now face more difficult entry. There are other issues as well. I will not document them here as you are familiar with them but you may be sure that they will be defended. Britain's entry into the EEC was a decision for Britain to make. While we welcome the EEC's success, the parties to enlargement must understand that the burden of adjustment thrown

upon Canada is greater than that placed upon any other country outside the enlarged EEC. If EEC policies took a protectionist turnover there could be real damage to our trade. We have, therefore, been pleased to note the recent declaration of intent published by the United States and the EEC in which they make a pledge to enter into broad multilateral trade negotiations in about a year from now. If a new balance is necessary we want it at a higher not lower level of trade.

So we intend to speak to the Europeans not only about the protection of our present interests but also to work now with them to develop our shared potential interests. We shall both benefit from outward looking approaches and liberalizing tendencies in world trade, since our respective stakes in world trade are important. Closer relations will assist us both. Closer industrial ties would help.

In the end, of course, the possibilities of closer industrial ties are going to be only as large as the mutual interests and abilities of Canadian and European industry make them. We can't develop synthetic interest. I am convinced, however, that a closer examination of possibilities will reveal matters of ample potential interest, if the political will is there. I believe this is now more apparent on both sides.

Let me say, very forcefully, Mr. Chairman, that there is nothing in what I have said which could be seen as being in any way "anti-American". Nothing I have said is intended to suggest that the closeness of our relations with the United States needs re-evaluation in the light of possibilities for closer economic relations with Europe. Indeed, it is because of the unusual closeness of our economic relations with the United States that we need energetically to explore the possibilities of other areas we may have underplayed. It is all the more necessary for us to do this in Europe now that Britain has joined the EEC.

Never before have so many questions been raised about Canada's relations with Europe. Until now, Europe has been too busy re-organising itself to pay much attention to how it is going to arrange its relations with the rest of the world. This is changing, and with this change there is an opportunity to improve our relationship. Europe is now going to have to devote some attention to deciding how it wants to maintain the links it has with others—above all, with its closest and most important partners in Canada and the United States.

I believe that it is in Europe's interest that Canada remain independent, prosperous and united. Europeans should be convinced of this fact. I believe the Europeans have come to appreciate this more clearly in the past few months than ever before. Because of their own preoccupations, because of distance, because perhaps we did not explain ourselves often enough—for many reasons—they were inclined in the past to assume that the view they took of their relations with the United States would do more or less for their relations with Canada. The Government has worked to change this attitude, with some success. It is a fact of considerable importance that the next European Summit will have specifically on its Agenda the question of the European Community's relations with its major economic partners which I have no doubt will include Canada.

For our own part, we should try to keep as open-minded an attitude as possible to the new forms of multi-lateral co-operation the Europeans are trying to work out among themselves. We have to look to our interests, and we will. But their success is our success. Both bilaterally with the European capitals, and multilaterally with the institutions of the Community itself, we wish to build upon the multiple dialogue we have begun.

There will be much hard work before we can develop the sort of relations with the new Europe that will suit our interests. This is why I welcome all contributions to the dialogue, including those of your committee. The government also looks forward to receiving shortly a visit from Mr. Dahrendorf, the Community's Commissioner for foreign affairs and a former German Parliamentary Secretary to Mr. Scheel. Many of the themes I have touched on above will be discussed with him. The EEC with Great Britain and Ireland, Norway and Denmark is a developing economic power of great strength and wide-ranging political significance. Canada has much at stake in the Community. Canada has much in common with the Community. And I am convinced both our stake and our common interests will grow.

I shall look forward to our own appraisal.

The Chairman: Thank you, Mr. Minister. From the applause, you will gather that we are indeed grateful to you for your full presentation and statement.

We turn now to the question period, and I call upon Senator Grosart.

Senator Grosart: Mr. Minister, we are certainly glad to have you with us again. After all, you are the oracle in this field and we are mere supplicants seeking the truth.

Hon. Mr. Sharp: I will bear that in mind as a quotation.

Senator Grosart: The words which occur most often in your presentation, Mr. Minister, are "close, closer, closeness". I think I counted eleven times when these are used. It seems to me that the questions with which we will be most closely concerned are: How close? And in what form?

Your paper seems to suggest that this new closeness will come from business-to-business relationships, largely within the political framework. But do you see any possibility of a formal relationship between Canada and the EEC along any of the lines of their present relations, the association relationship, the preferential arrangements, the non-preferential trade arrangements? Are we going to go in that direction, or are we going to rely on free market arrangements?

Hon. Mr. Sharp: Mr. Chairman, I think the short answer to the question is that this government has not intention of seeking any formal relationship with the EEC by way of becoming an associate member or entering into any of the preferential arrangements that this organization has made with other states, whether former colonies of member countries, or all around the Mediterranean, and so on. Our policy remains based on a multilateral approach and not upon relationships of this kind.

We believe it is in our interest to work towards the lowering of trade barriers in a general way and towards the negotiation, on a multilateral basis, of reductions of all barriers to trade, rather than upon the negotiating of special arrangements either with the United States or with Europe, if I may generalize for a moment.

Senator Grosart: Of course, you can use that word "multilateral" in many senses. It merely means many nations, not particular nations. There are already many multilateral arrangements within the EEC and the enlarged EEC. Why do we say that we have to wait for the whole world to come up with the kind of international business climate that we want, before we actually say we will go out and do what everybody else is doing and make deals?

Hon. Mr. Sharp: I believe, Mr. Chairman, that it is in our interest to follow—and I use a different terminology, since the senator seems to feel that "multilateral" does not convey what I had in mind—non-discriminatory trade relations. In other words, I do not think that Canada should enter into discriminatory trade relationships with Europe or with the United States, as we have been sometimes urged to do. I believe that it suits our purpose better to avoid such exclusive relationships. That is what they are; they exclude someone else. If we enter into a preferential relationship with Europe, it discriminates against the United States. Similarly, if we entered into one with the United States, it would discriminate against Europe and other countries.

We have, indeed, protested very strongly against the kind of preferential arrangements that are emerging around Europe; because, while we have no objection and, indeed, in some ways encouraged the formation of common markets and free trade areas, we do not favour the kind of preferential arrangements that have been entered into by Europe with countries around the fringes of Europe. We have protested quite strongly, along with the Americans, against these tendencies; and I hope that our views are being taken seriously and that, in fact, the situation will move to the point where this kind of arrangement becomes of minor importance. The Europeans justify these arrangements on the ground that these are countries that need assistance. To which I have said, "Fine, you help them. But should you demand, in turn, that they discriminate against us in your favor?" That is the argument.

Senator Grosart: But is it not so that the whole trend is for these limited kinds of multilateral trading agreements to proliferate rather than going the other way?

Hon. Mr. Sharp: Unfortunately, they have been proliferating, but I think Canadian policy should be very strongly opposed. I think that we ought not and cannot oppose the formation of genuine free-trade areas or common markets where there is, in effect, one area trading with others. But these preferential arrangements that have been multiplying around Europe are, it seems to me, a menace to the stability of the trading system and are particularly opposed to our interests. This is one of the reasons why I say to you, Senator Grosart, through you, Mr. Chariman, that I do think that, if we are going to be consistent in opposing those kinds of arrangements which discriminate against us, we must not be tempted to enter into them.

Senator Grosart: Is our opposing them going to have any effect?

Hon. Mr. Sharp: I think it will, yes. I think it has already. I can give you an example of the sort of problem that arises. I was in Africa some months ago visiting the East African Community, which is a small common market, as you know, in the centre of Africa. I protested to them about their preferential arrangements with Europe. I asked, "Why did you give preference to Europe? Do you want to become, exclusively, a ward or a protectorate of Europe? Do you not want us to help in your assistance and in your development?" I said, "By entering into these preferential arrangements with Europe, you have discriminated against Canada, which is offering to help in the development of your country." Well, they had not looked at it from that point of view.

When I went to Europe I made the same point. I asked, "Do you want us to help in the development of Africa, or do you want to encourage policies which discriminate against those who are helping?"

Senator Grosart: Do you think there is any possibility, Mr. Minister, that this will happen—in other words, that we will start to correlate our international aid or external aid policies with our trade policies with respect to these countries? For example, I refer to the three East African Commonwealth countries which now have special arrangements with the EEC. If these people are making trade agreements which are prejudicial to our interest, is it going to make sense for us to continue to give them external aid?

Hon. Mr. Sharp: Let me put it this way, sir: If we are not helping, there is very little we can say about it; but, if we are, they will listen to what we are saying. As I say, I have no objection if the Europeans give them special advantages on the European market. That is, perhaps, a way that Europe can help in the development of those countries, their former colonies. But when they demand, in return, that those former colonies discriminate in favour of Europe against countries like Canada and the United States, I think it is a very bad policy from the point of view even of the Europeans themselves. I think it tends to break up the world into discriminatory trading blocs.

Senator Grosart: But even if they are given preferential access to the common market, is that not, in effect, discrimination against us?

Hon. Mr. Sharp: No. We can easily counter by offering them preferential arrangements in our market, which we are about to do.

Senator Grosart: But it would still prejudice our position with respect to access to the European Common Market.

Hon. Mr. Sharp: No. We are not very competitive with most of these countries. We do not object to the extension of preferential arrangements to the developing countries of the world.

The Chairman: Quite the reverse.

Hon. Mr. Sharp: Yes, quite the reverse. Indeed, I hope that very shortly we will be approving a generalized preferential scheme in favour of underdeveloped countries. So I really do not object to Europe's giving preferences to its former colonies or to any other countries that are in an underdeveloped state. I do object very strongly, and I think all Canadians should, to the reverse preference.

Senator Grosart: And yet some of these special trading arrangements are with countries which could hardly be regarded as developing countries—for example, Yugoslavia, and perhaps Spain, in one sense. There seems to be an indication that these preferential trading agreements will be extended, perhaps well behind the Iron Curtain, to Roumania, Bulgaria and so on.

Hon. Mr. Sharp: Yes. We have objected very strongly to these. Some are justified on the basis that they are the first steps to eventual inclusion within the common market. That may be a reason. But in many cases I do not think that that is what is going to happen, and they amount to preferential trading arrangements which are opposed to our own interests. However, I do not think that the answer is for us to enter into preferential arrangements with Europe, because then we would be discriminating against countries where we hope to sell goods, and they would probably take action against us.

Senator Grosart: Finally, Mr. Minister, do you really think it is going to be possible for our trade policy to increase the proportion of our export trade that is not with the United States?

Hon. Mr. Sharp: Yes, I think the possibilities of diversifying are very good. I do not think our trade with the United States is going to decline. Indeed, I expect that it will go on increasing.

Senator Grosart: But as a percentage?

Hon. Mr. Sharp: But, as a percentage, I expect it will go down. There is every reason to think so.

The world has changed dramatically in the last few years. At one time the United States was a giant amongst mere mortals in an economic sense. Now Europe, which you are studying, is challenging the position of the United States, and so is Japan, which some people think will become richer per capita in some years even than the United States. So we have an opportunity of diversifying our trade which we never had before. That is why this government has been emphasizing the importance of our relations with both Europe and Japan in trade. My colleague, Mr. Pepin, went to Japan and entered into probably the most fruitful negotiations we have ever had with Japan. We now have a group of companies coming here—among others, the Mitsubishi company. They are interested in buying things from Canada. But what is our industrial capacity? This is a revolution that I never thought would happen as quickly as it is.

Senator Grosart: I can think of two former prime ministers who had very high hopes of reversing the "eggs in one basket." Mr. Bennett was going to blast it, and Mr. Diefenbaker had another way of doing it.

Hon. Mr. Sharp: Both were Conservatives.

Senator Grosart: Yes. I had forgotten that. Thank you.

Hon. Mr. Sharp: May I just make one slight comment on that, Mr. Chairman? This government has not been suggesting a diversification in our imports *per se*, as Mr. Diefenbaker did suggest at one time. Mr. Diefenbaker talked about diverting imports from the United States to the United Kingdom; but we have been talking in terms of diversifying our exports and our imports—of just diversifying all of our trade.

Senator McNamara: Mr. Minister, if I may say something as an aside first, I am very much enjoying the reverse roles the Minister and I are taking this afternoon, as compared to our association over the years.

From your remarks, Mr. Minister, and from the paper you have presented and the statements of government policy, it would appear that the Canadian government is now more conscious of the potentiality and necessity of expanding trade with Europe, as compared to what we have been directing our attention to more recently. Is the British entry influencing us greatly in this regard?

Hon. Mr. Sharp: Yes. We are influenced by the growing strength of Europe and the opportunity that this does give us for carrying out a policy of diversification with some chance of achieving results. Up until a few years ago the European market was not that attractive to us; but now, with the end of the Kennedy Round and the lowering of our tariff barriers around Europe, it has become one of the more accessible markets and one of the most rapidly growing.

The entry of Britain has necessitated our trying to compensate for any temporary losses that would arise as a result of the ending of the preferences. So the combination of these factors has concentrated our attention on Europe.

Moreover, from a political point of view we have seen the great opportunity for diversifying our cultural and our political relations which are now so greatly dominated by the United States. As I said in my remarks, this is not anti-Americanism; it is simply an attempt to retain and build up our own traditions, based upon our associations with Europe from which our people originally came.

Senator McNamara: In this regard, Mr. Minister, I have had some concern recently about our approach to the individual Common Market countries, as a way of developing our trade. In the past we have had our relationships with the various nations, but now with the centralization of control through the EEC and the Council of Ministers. I wonder if having our office in Brussels and having our ambassadors and trade commissions dealing with the individual governments, is going to continue to be the effective approach, or do we have to think more of dealing with the Community as a Community rather than with the individual trading partners?

Hon. Mr. Sharp: I think inevitably we are going to be dealing more with the EEC Commission. One of the problems we have encountered in trying to work our relationship with the EEC along the lines of the relationship which we have with our other principal

trading partners, the United States and Japan, is just the sheer mechanics of it. How do you establish relationships with a body that is representative of many governments? When we work out a relationship with the United States we set up a joint cabinet committee, and the same applies to Japan; but we cannot set up a joint cabinet committee with the European Economic Community in the same way. There are ten governments in the enlarged Community, so we have to work out a different kind of mechanism. However, we are beginning to do this. It has been an extremely delicate problem for the Europeans too. Some consider that whatever they work out with us might have implications for their other important trading partners as well.

The Chairman: Is the US example of any help to you in this?

Hon. Mr. Sharp: Yes, it is. May I add also that we fully expect that we will have to enlarge our Brussels operation and, in due course, have a separate ambassador to the Community, quite apart from our ambassador to Belgium. At the present time our ambassador to Belgium is serving both functions, but our plan is to split that office and have an ambassador to the Community as well as one to Brussels.

Senator McNamara: I think that is absolutely necessary because if we are going to get the advantage of the influence of the British on trading policies, which I think would be very helpful to us, then it seems that we have to have some form of more direct access to the Council of Ministers, because, as I understand it, all their major policies are not decided on an individual basis but are formalized by the Council of Ministers. Eventually, if we are going to have the benefit of the British influence, we will have to have more direct access to the Council of Ministers.

There is a further question I want to ask relating to agricultural products, of which I know something. Do we gain by dealing bilaterally, or should we be working with the United States in relation to problems which also concern them in making our representations? In other words, is it best for us to go our separate ways?

Hon. Mr. Sharp: Well, when Mr. Pepin and I made our forays into Europe during the last months and years, we did it in both places. I visited the Commissioners in Community headquarters, and I took the occasion of visiting the ministers in each country and urged the Canadian point of view, the importance of Canada, in the plans that the Europeans had for their consultations with the rest of the world. I think this will have to go on; I do not think you can depend on contact only with the ECC Commission and its representatives. I think we will have to continue to urge our point of view upon the individual countries which form the Community itself, although the decisions are made by all EEC member countries jointly. There is no doubt about that. We must find some way of getting to those who make the decisions.

Senator McNamara: Is there a danger that the Community will regard us simply as being North American, with the result that every deal they make with the Americans will automatically apply to us?

Hon. Mr. Sharp: We were very fearful of this. We have heard offhand opinions expressed, not perhaps by very important people, but by some people that Canada "is just part of the North American market, so why should we worry about the Canadians? They make their deals with the Americans, and we make our deals amongst ourselves." That has changed. We have had very encouraging signs that not only do the Europeans not regard us in this way, but they do not want that to happen. They look on an independent Canadian position as being valuable to them.

You are also asking about our co-operation with the United States. Well, there are occasions when we do not have common cause with them, not as you have seen recently; but there are occasions when we do have common cause with them, and one is in the field of agriculture. But there, senator, as you probably know, the Americans have probably done better, relatively, than we have because they have been concentrating upon feeds and oil seeds.

Senator McNamara: I have a further question dealing with my own field, which is grain. Do you share my view that in so far as the British entry into the Common Market and our wheat exports are concerned, it is not going to be very harmful to us? It is my view that the United Kingdom has already cut down to the extent where they need quality wheat and they will still need this percentage whether they are in the Common Market or not, and our wheat trade is not going to be adversely affected.

Hon. Mr. Sharp: That is the view that I have formed. It is not going to be helpful, but I do not think it will affect us too seriously. I imagine we will continue to do as much wheat business as we have been doing.

Senator McNamara: But even in the field of other grains, such as barley where we are going to lose our preference by the recent action of the United Kingdom Government to protect their own domestic consumption and in imposing a levy, I do not see that this will be too damaging. I am not saying that it will help us, but I do not think it will be too damaging to us.

Hon. Mr. Sharp: Mr. Chairman, on all these matters I always accept the advice of Senator McNamara.

Senator Connolly (Ottawa West): If I might ask a supplementary question on this point: You have been talking about the arrangements made with the Commission of the Community, and then you follow up with the ministers of the various countries concerned, and now that the Community has been enlarged there are obviously more calls to make. That is on the official side of the trading question, and that is trying to get policies to make it possible to trade under the best available circumstances. But is not the real nub of increasing trade the salesmanship efforts put forward by Canadian exporters and by Canadian producers? That is something that I should think must be done, not only on the basis of the individual country concerned but also on the basis of the individual company in the individual country that would be importing or might be a potential importer of Canadian goods.

I wonder if you would like to speak about the relationship between activities to enlarge and develop our export trade with

Europe—which are taking place on the official level, with which you are primarily concerned, and properly so—and those on the part of the private sector.

Hon. Mr. Sharp: Mr. Chairman, I feel that Senator Connolly has touched upon some of the most important aspects of our developing economic relations with Europe. In my opening remarks I touched on this subject rather briefly. I do not believe that we have yet begun to explore the possibilities within the European market with respect to industrial goods from Canada. We can expect Europe to look to us for raw materials, and so on, as their demands grow. Canada is a good, reliable source of supply. Sales of these kinds of materials do not require a great deal of salemanship. They may require other qualities, but it is not primarily a job of selling. It is, however, a job of producing in stable quantities and at good prices that which is required.

When you speak of industrial goods you are in a different field altogether. There is little evidence to suggest that our producers of manufactured goods have yet taken the European market as seriously as they have the American market. There are many reasons for this. However, I hope those reasons will not prevail very long.

Europe is, of course, a highly advanced and very sophisticated producer of manufactured goods. At first blush, it might appear unlikely that Canada would be able to break into this market. However, experience shows that the more highly industrialized a community or country becomes, the more it is required to import manufactured goods: it does not tend to reduce imports of manufactured goods; it tends to enlarge the market and create more opportunity for outsiders to participate. The United States is a very good example of this. It would seem to me we are merely at the beginning of the process, just as we are with Japan. It is quite remarkable that as early as this date we are thinking about marketing Canadian manufactured goods in Japan. No one would have thought this was likely. However, it is now beginning to emerge. They have buyers looking at the potential which exists in Canada.

Senator Connolly (Ottawa West): Do we have Canadian sellers in Japan?

Hon. Mr. Sharp: Not as many as we would like to see in Japan. This is partly due to the fact that the Canadian manufacturing industry is not geared to produce either for the European or the Japanese market. It is essentially geared to produce for the North American market. We have often criticized Britain for not having adapted themselves to the requirements of the North American market. However, to some extent, we are now guilty of the same thing. If we want to diversify, we must think not in terms of producing North American goods for Europe, but of producing the kind of goods that can be sold in Europe or Japan, as the case may be.

Senator Connolly (Ottawa West): Mr. Chairman, I do not wish to go beyond this question, but I think there are probably many efforts being made on official diplomatic, departmental and governmental levels to increase our trading relationship with the Community and with Europe generally. I am wondering whether our

own producers, and I am speaking mainly about our industrial producers, are making comparable efforts; and also if there is something which this committee might do to encourage developments of this kind in the private sector.

Hon. Mr. Sharp: Well, there is one activity which we have been carrying on to an increasing extent, and which I feel will help, and that is the encouragement of technological exchanges.

Senator Connolly (Ottawa West): You are speaking about the government involvement, are you not?

Hon. Mr. Sharp: No, technological exchanges in cooperation with industry.

Senator Connolly (Ottawa West): I see. You are opening the door, so to speak?

Hon. Mr. Sharp: Yes, we are opening the door for technological exchanges between industries of the two countries. This is important in our endeavour to build up our trading relationships, and it is becoming more and more important as we become more sophisticated.

As far as this committee is concerned, I am not aware of the number of big industrialists there are here. At any rate, in your contacts, and particularly in the report which you will be making, emphasis could be placed upon this. As I have said, we are merely beginning what we hope will be a more serious effort to break into the European market.

The Chairman: In the minister's opening remarks, he indicated that he would welcome any input this committee could make. No doubt we will be looking into this matter.

Senator Carter: In reply to a question asked by Senator Grosart, you mentioned something about a multi-national agreement which you considered to be discriminatory. How do these agreements fit in with GATT? What will eventually happen to GATT?

Hon. Mr. Sharp: We contend that some of these agreements are in contravention of the underlying principles of non-discrimination. It is necessary to establish that they do not infringe upon these principles. However, we feel that they do. What is occurring in the world with respect to trading relationships, and especially in relation to GATT, is really quite dramatic. The Kennedy Round, for example, consisted of tariff negotiations among developed countries with the European Common Market. The EEC was then composed of six countries—leaving Britain and several other independent European countries, Canada, the United States, Japan, Australia, New Zealand, and a group of smaller countries. Now, it is quite different. Within the Community now there is a group of ten countries embracing the original six countries plus the new four. In addition, special arrangements are being formed with EFTA and other European countries, such as Switzerland, Sweden, Finland, Spain, Yugoslavia, Portugal. There is also the group of countries along the Mediterranean which have entered into preferential arrangements with the EEC.

Moreover, former colonies of the European countries can carry their preferential arrangements over if they wish, and this could include as many as thirty former British or French colonies. All of these form a great EEC bloc on the outside of which are really very few industrialized GATT countries: the United States, Japan, Canada, Australia and New Zealand. For this reason, not a great many countries now negotiate and follow principles of non-discrimination.

We have been making the point to our trading partners that these relationships are shifting. That is why we have urged that the type of arrangements which we have with the United States and Japan for close consultation should be matched by consultation with Europe. Therefore, the next round of negotiations, which I hope will take place, will be quite different. We hope that the principles will be retained, but I have to agree with Senator Grosart in the implication of his observation, that there will be as many countries in breach of the GATT principles as conform. This will be true in numbers, if not in total volume of trade involved.

We are now the fourth of several economic giants. We do not realize this ourselves, but after the enlarged EEC come the USA and Japan; and then Canada is next.

The Chairman: As a trading nation.

Hon. Mr. Sharp: Yes.

Senator Grosart: And approximately 50 of the 93 GATT countries are in this bloc.

Hon. Mr. Sharp: Yes. I hope that soon we ourselves will be participating in a generalized preference system which will look after the underdeveloped countries of the world. It will be a concentrated negotiation in so far as our barriers to trade and those of Europe, the United States and Japan are concerned, and in quite a different atmosphere. I hope, however, that we can retain the principles of non-discrimination, at least in negotiation with these groups. In any event, I do not consider that an exclusive relationship with any of the economic giants would serve a useful purpose for a country such as Canada, which wishes to remain independent.

Senator Carter: If the present members of GATT do not now honour its principles, would it not be even more difficult for blocs if it must be taken on faith, or can something practical be done about it?

Hon. Mr. Sharp: I do not know. The Europeans claim that they do not seek these arrangements. They say that the countries approach them asking for special relations. They ask, moreover, "Surely, you would not wish us to divide Europe, but to have special relations with Switzerland, Sweden and all others who are not now members of the Community? Surely, you believe in the unity of Europe?" I do, but I do not believe in discrimination, nor do I like to see these instruments used against us, which is, in effect, what happens.

Senator Carter: You mentioned in your presentation the book *The American Challenge*. The thesis of that book is that American

companies buy into Europe out of their profits, acquiring assets very much as we say they do in Canada, not with new capital but out of profits. Would that be allowed to continue in the new enlarged market, or would steps be taken to curb it?

Hon. Mr. Sharp: I do not know what attitude the new Community will take towards foreign investment. I am familiar with the positions of individual countries. They do not, of course, have the same problem as we in terms of degree. Foreign ownership is the exception in Europe. There are many, many competing companies which have their origin and home office in Europe. Unfortunately we do not have as many.

Senator Carter: You spoke of the growing strength of the European Common Market and the fact that we cannot afford to be lackadaisical concerning our relations with it but must take it more seriously. What will be the impact on communist nations if that growth in strength continues and the European Common Market emerges as an even stronger giant?

Hon. Mr. Sharp: The Russians are very suspicious of the European Common Market. They believe that it has political in addition to economic significance. Our view is that it has political significance, but that it makes for stability in the world rather than otherwise. We believe that a united western Europe is better than one divided, as it was in the past. The wars we have been involved in there, of course, arose out of conflicts between members of the Common Market. The fact that they are now joined together in an economic grouping reduces enormously the chances that another conflict would arise out of a war between, for instance, France and Germany. The Russians, on the other hand, feel that this is not a development favourable to their interests. That point of view is very short-sighted, in my opinion. If the Russians are interested in peace and stability in the world, they should not oppose this development. At the moment, however, I think it is fair to say that they view it with great suspicion.

Senator Carter: In Canada we feel the pull of the tremendous influence of the huge United States. The same situation will prevail in Europe when this giant community of two or three hundred million people emerges with small countries on its fringes as a buffer between the communist and European blocs. Will there not exist the same pull towards them as we find towards the United States, which would cause tension?

Hon. Mr. Sharp: Perhaps. There is no doubt about the attractiveness of Europe to many of the peoples along the borders. There have been signs that these countries would like to have some type of relationship with Western Europe. One very apparent phenomenon is the desire of Eastern Europe to participate in the technology of the western world. I expect that there would be an increase in the number of exchanges between eastern and western Europe. This is one of the reasons for my personal opinion that the formation of the Community is a stabilizing factor. In the long run it will be a very good thing for the world that these countries have united and pooled their economic sovereignty and have decided, to some extent, to proceed on agreed lines.

It is highly unlikely, in my judgment, that a grouping such as that would ever be aggressive. There are too many national interests involved for them to be able to embark on an aggressive policy. That is one reason for my opinion that this will make for peace. The situation was much more unstable when individual nationalities became aggressive.

The Chairman: I would like to ask a quick supplementary before I call upon Senator Yuzyk. I wonder whether you would comment on Mr. Brezhnev's remarks about the reality of the EEC. A short report appeared in yesterday's newspaper. Mr. Brezhnev was addressing a trade union conference in Moscow and in a very long speech he dealt with the EEC and spoke about its reality. The newspaper report seemed to attach some significance to this.

Mr. Michel Dupuy, Assistant Under-Secretary of State for Economic and Social Development, Department of External Affairs: I did not see the report. There is an evolution, it seems, in the attitude of the Soviet Union. At first they seemed to be very skeptical about the prospects for the development of a serious community of Western interests but they have had to yield to the evidence. One by one, some of the Eastern European states have developed, as Mr. Sharp has indicated, a certain relationship with the Common Market. This is not a highly official form of relationship, but is in the form of commissions and trade agreements. The Soviet Union has been watching the scene; and increasingly, in statements made by their ministers or senior officials, they have given this kind of recognition to the existence of the Common Market.

The Chairman: Thank you very much.

Senator Connolly (Ottawa West): not only have they relations and treaties, but there is trade between the USSR and some countries within the Community. I have already mentioned the United Kingdom, France, West Germany, and so on. They are trading back and forth to the extent of a quarter of a billion dollars a year. It may be double that figure this year. So, it is a reality.

Senator Yuzyk: My first question is with regard to external policies of the EEC, as far as we get wind of them or as they are pronounced from time to time. Has the EEC made any effort to negotiate with Canada along certain lines? My second question is connected with my first. Is there any information which would lead us to believe that the EEC could establish an embassy here in Ottawa, with which we could negotiate?

Hon. Mr. Sharp: Perhaps, Mr. Chairman, I should start by saying that so far this is an economic community. They have pooled their economic sovereignty to a very large extent, and increasingly so. They are now talking about a common currency. They are beginning to bring all of their economic policies under the purview of the Community organization. They have not as yet, so far as I know, taken any really significant steps to pool their political sovereignty, or in any way to interfere with the relationships between individual countries and the outside world on political questions. In other words, we never talk about, and I do not think the Economic

Commission is authorized to talk to us about, anything except economic questions.

In so far as economic questions are concerned, we have been having not formal negotiations but consultations in the way that I have described. I have visited the European Economic Communities' Commission headquarters a number of times. I cannot remember how many times, but each time that I go to Europe I make a point of going to Brussels to see the President and other members of the Commission, to discuss our common problems in the Commission's jurisdiction.

I think it is fair to say that so far most of the initiative has come from our side, because the Europeans have been so concerned about developing their internal organization that they have not devoted very much time to their external relationships, even on economic questions. That is now beginning to change. Mr. Malfatti, the former president—I believe he has just retired—

Mr. Dupuy: He retired this week.

Hon. Mr. Sharp: —came here in September last. Mr. Dahrendorf is coming next month. This is the beginning of a process. Our trade relations with all the EEC member countries are governed by the GATT. This is assumed in the new relationship with the EEC Commission, which now speaks on behalf of EEC member states on external trade and tariff matters, since there is a common EEC tariff.

Senator Yuzyk: Surely, it would be in our interest to encourage them to set up a mission here in Canada in the very near future, even along trade lines? At the basis of the EEC is also political unity, which will have to be worked out, perhaps in the fairly near future. Perhaps that is what the USSR is fearful about.

Hon. Mr. Sharp: Yes. There is no doubt that the European movement is ultimately a political movement. It is designed to promote unity among the countries of Western Europe. I am sure that this is one of the reasons why the USSR took a rather negative view. Now, recognizing its reality, she is having to deal with it.

From our point of view, I would have thought we should encourage a political unity of that part of the world which, as I say, has been the location of so much conflict. The end of wars in Europe would certainly be one great gain in the cause of world peace.

I do not know whether Mr. Dupuy would like to add anything on the political side.

Mr. Dupuy: On the question of representation of the Community and formal links with other governments, they have taken a position that they welcome the embassies or missions of non-EEC countries in Brussels. Through these missions—and we have an important one—the EEC Commission and the EEC Council have a relationship with foreign governments. They have, on the other hand, been inhibited in reciprocating with Common Market missions abroad. This is largely due to the views of some of the member states on supranationality. They feel that the establishment of

European Economic Communities missions abroad would be an exercise in such supranationality, which is not quite in keeping with what they regard the EEC at this stage to be.

Senator Yuzyk: Has the EEC sent any officials abroad?

Mr. Dupuy: They have opened about four or five information offices abroad, the most important of which is in Washington.

Senator Yuzyk: Thank you.

Senator White: Mr. Chairman, I should like to ask the minister a question about a statement on page 4, which refers to the amount of our exports to Britain and the difficulties which will be faced. For example, I understand that cheese and bacon at the present time have preferential treatment. Now, when this preferential treatment no longer exists under the new system, will the Danes then have a decided advantage over Canada as regards the exporting of Cheddar cheese, milk products, bacon, and so on, to the United Kingdom; and could you give any idea as to what the present preferences are under the old setup?

Hon. Mr. Sharp: I cannot offhand, senator, but I do have a number of experts with me.

Mr. Dupuy: Generally speaking, it is quite true that the Danes will gain better access to the British market as a result of both countries joining the European Economic Communities as full members. However, the Danes already enjoy some preferred treatment in the British market as a result of their common membership in the European Free Trade Area. In addition, with regard to certain agricultural commodities—including, if my memory serves me, bacon—there exists a special bilateral arrangement between Denmark and the United Kingdom which provides for a large measure of free trade. There will definitely be change, but the change may not be that dramatic because of the existence of this bilateral agreement, particularly covering the agricultural products, and their common membership in EFTA.

Senator White: But Canada will be at a decided disadvantage with respect to the shipment of dairy products and bacon to the United Kingdom—is that not correct?

Mr. Dupuy: Yes.

Senator White: And once the new setup gets going, I take it that from that point on the United Kingdom will not be able to make an agreement of any kind with Canada; in other words, it would have to be a decision of the whole Community?

Mr. Dupuy: Yes, senator, the whole of the common commercial policy will be decided in Brussels.

Senator White: One other question, Mr. Minister. You referred earlier to the possibilities of their policies taking a protectionist turn. Do you not think that the present policies among the old members are protectionist?

Hon. Mr. Sharp: No. They are more protectionist in agriculture than they are in other products, but in industrial products they have the lowest tariffs in the world. It is in agriculture where it is not the tariff but the common agricultural policy which is designed to protect European agriculture.

One of our concerns when Britain entered the Common Market was, of course, the application of the common agricultural policy to Britain. It was also a concern to the British, I might add, because they thought they were going to be faced with much higher prices as a result. However, there are various transitional arrangements that will help somewhat in reducing the impact. I think our general view is that if Europe does succeed in uniting and in becoming a more productive union the demand for imports will rise more rapidly than if the constituent parts remained separated. That is the general opinion we have formed. In support of this, if you look at our respective trading histories with the EEC and Britain you will note that our exports to Britain in recent years have not risen very much, whereas our exports to the EEC have risen quite dramatically; so we believe that when Britain and the others join Europe they will, united, be a bigger importer than they were separate countries.

Senator White: Do you not think they will still buy our cheese, seeing it is the best cheese in the world?

Hon. Mr. Sharp: I should hope so. Indeed, as you probably are aware, there was a time when we had to try to sell our cheese in Britain, but now it has come to be recognized as a specialty, as it ought to be.

Senator Cameron: My first question is really one of mechanics. The minister suggested that we might appoint an ambassador to the European Economic Communities.

Hon. Mr. Sharp: May I interrupt? At the present time we do have an ambassador to the EEC. I said that we might consider having a separate ambassador.

Senator Cameron: In doing this, do you envisage setting up an organization with commercial ministers, as you would within a country?

Hon. Mr. Sharp: I would think that there would have to be an even greater number of specialists on his staff, yes.

Senator Cameron: Do you envisage the commission, which is the executive arm of the Council of Europe, co-ordinating their purchases and making their purchases through that body?

Hon. Mr. Sharp: No.

Senator Cameron: So it would be done through the individual countries pooling their needs?

Hon. Mr. Sharp: In effect, they will be one country in some respects. It will eventually be like the United States for trade purposes. In other words, Canada will trade with the various parts of Europe, as it does with the various regions of the United States.

Someone once remarked that the most important free trade area in the world has been the United States.

Senator Cameron: I am thinking of the co-ordination between the special mission to the EEC and the existing organization—the ambassadors and the commercial ministers in the individual countries.

Hon. Mr. Sharp: It could be much the same relationship dealing with commercial matters that there is with our ambassador in Washington. Political matters, of course, are another thing. We already have trade commissioners spread throughout the United States promoting the sale of goods, and the same thing will happen in Europe. The local embassies will have trade commissioners who will be helping Canadian industrialists and others to sell in Europe.

Senator Cameron: In effect, you are envisaging a more aggressive approach than we have had so far.

Hon. Mr. Sharp: Yes.

Senator Cameron: The second question is this: It is frequently remarked by some of our competitors—the Japanese and Russians have mentioned it, but I have not heard that much from the Europeans—that Canadian business has not been as aggressive as it might be in seeking markets. At various times you have sent missions or delegations of businessmen to various countries. As a result of those missions have you any measurable evidence of the return Canada has been able to receive?

Hon. Mr. Sharp: It is difficult to measure that. Attempts are made, particularly in the Department of Industry, Trade and Commerce, to show the effect of such missions, but for a country like Canada, which exports large quantities of raw materials and foodstuffs, it is difficult. Wheat, for example is sold on the basis of its quality, availability and suitability to the needs of the people; metals are sold to manufacturers rather than to the public, and so on. That part of the business is promoted by the trade commissioners and by the other agents of the Canadian government, but it is a rather different business, of course, getting entry into the consumer markets for finished goods, and there the trade commissioners have their most important role. However, in terms of the results, they look smaller than the results in terms of the vast quantities of raw materials and foodstuffs that we sell. We see better examples of that in the United States, where we have evidence to show that we are able to sell more successfully within a region of the United States if we have a trade commissioner co-ordinating the efforts of Canadians who are trying to sell in that market.

Senator Connolly (Ottawa-West): Snowmobiles, for example.

Hon. Mr. Sharp: Yes. The nature of the business makes it difficult to measure the effectiveness of a particular person in promoting trade. It is a cumulative effect which sometimes takes years to be realized.

Senator Cameron: I realize that, but I was wondering if you had any spectacular evidence.

Hon. Mr. Sharp: The most spectacular example we have had of an increase in our exports of industrial goods, of course, has been under the automobile agreement, where business co-operated with the government in exploiting the possibilities, and we have had so great a success that the Americans have protested.

Senator Cameron: Your answer relates to my next question. The Special Committee of the Senate on Science Policy has suggested that if we are to provide the jobs needed to reduce unemployment in Canada, we must do so through an expansion of secondary industry. I may have misunderstood you, but I thought you said that we are entering into a pretty tough league when we start to export the products of secondary industry into a very sophisticated European market. Do you see any special areas where we might have an advantage in Europe, assuming we upgrade the quality of our secondary industries?

Hon. Mr. Sharp: Yes, there is some evidence that the Europeans recognize that Canada is a quite technologically advanced country. We have seen evidence of this in various forms, in their desire to have technological exchanges, to enter into agreements with us. I think we sometimes under-rate ourselves in this field. In some areas we probably have the best technology in the world, and this is Canadian, being developed to suit Canadian requirements. This is undoubtedly so in fields like hydro, pulp and paper, mining.

Senator Cameron: Electronics too.

Hon. Mr. Sharp: And in electronics. In many, many fields we are not behind anyone at all. What I was saying was that we have never thought in terms of the European market for the purpose of developing our technology. We have always been thinking more in terms of the North American market, and quite rightly; it was the most prosperous and the most available. Now, if we are to diversify, we have to leap across the Atlantic Ocean or the Pacific Ocean, and try to do this in a market with which we are not so familiar, where advertising is different, where much is different.

Senator Fergusson: Mr. Minister, maybe you have already answered what I have in mind when you said that the Community is economic and not political. However, I understand that amongst the institutions of the EEC there is an economic and social committee. I believe it is only consultative, and is made up of employers, professional people, farmers and others. All the discussions we have had seem to have been on trade. If this consultative body has some responsibility in the social area, I should like to know what they might be consulted about. Is there any attempt to co-ordinate the social policies of the different members of the EEC?

Hon. Mr. Sharp: Perhaps the shortest answer is to say that if the Europeans succeed in unifying their currencies, as they are now attempting to do, to reduce the margins of fluctuations between the currencies of Europe, with the eventual aim of having a single currency, they cannot achieve this without co-ordination of almost all aspects of their economic and social policies. The co-ordination would even extend into the defence of currencies, because when you think about the consequences of having a single currency you must realize that that implies a willingness on the part of each to

come to the help of the other, which will not succeed unless each has confidence in the fiscal and monetary policies of each of the partners. It seems to me that that will require a great deal of co-ordination, not only of economic policy but of social policy, and perhaps even of military defence policy, because that often looms so large in the budgets of the individual countries. I think the short answer is that they are moving towards the co-ordination of all their policies, and they must be if they are to have a common currency.

Senator Fergusson: This question may seem silly. The Prime Minister's message of congratulation finishes by saying:

A co-operating, prospering Europe has much to offer the world in friendship, in trade, in economic assistance.

Friendship is not only one way. If they are going to offer us friendship, we have to offer them friendship too. What are we doing? Just having trade with people does not always make for friendship—sometimes the contrary!

Hon. Mr. Sharp: For example, almost all the members of the EEC are members of NATO, and we have a very friendly relationship in that military alliance with them. Canada has also been trying to promote friendly relations, in the most general sense, with all the EEC countries in many ways. I think for another example, I may say that recently our efforts to promote friendlier relations with France have succeeded enormously.

Senator Fergusson: Yes, I agree.

Senator McElman: I appreciate that the emphasis is towards economics, but there is evolving, of course, the political aspect too. In a situation in which one of the members of the Community is damaging Canadian industry to a great extent, have the political aspects of the Community evolved sufficiently that Canada could negotiate through it to reduce that damage, to repair it? I am thinking here particularly of the Atlantic salmon fishery, which has reached a crisis situation, primarily because of the Danes. Has the Community evolved in a political sense sufficiently that it would be useful to deal or negotiate through them, in addition to the negotiations Canada has already had?

Hon. Mr. Sharp: I do not think that point has yet arrived. What is involved here is fishing by the Danes on the high seas. So far as I know, the European Community has not yet entered into any agreements amongst themselves in relation to fishing on the high seas. They have some agreements relating to fisheries, fisheries within the coastal waters, the definition of zones and so on. When you get out on to the high seas, where the Danes are finding our salmon, we have to deal with them directly, and I do not think the Danes would be prepared to see their decisions influenced by the Community.

This is my own assessment of the situation. I agree, however, that the implication of trends is that, not only will this be a concern of the Community—and I think it will be because the great danger of over-fishing will affect everybody—but it will become a concern of the whole world.

The Danish example is probably one of the best of the effects that over-fishing by one country can have upon the welfare of many other countries—not just those of the EEC Common Market, of course, but the United States, ourselves, other countries, including the Japanese, who are fishing on the Pacific. We do not yet know what the instant relationships are within these various species.

Senator McElman: At this point in time, even unofficial negotiations would not be effective?

Hon. Mr. Sharp: They would not be effective, in my judgment.

Senator Heath: Mr. Chairman, I think the minister has answered my question already, by inference. I was wondering how this is gradually to phase out NATO and bring in an enlarged EEC.

Hon. Mr. Sharp: The military alliance is not, of course, synonymous with the EEC, but I do feel that in order to ensure a strong alliance of the Western countries, there must be a strong economic foundation. I say this not because of Article II of the NATO Agreement, but just generally. You may recall that about a year and a half ago I was in Europe and I spoke out very strongly about the dangers that the world was facing, of a confrontation between the Europeans and the Americans in the field of trade. I did not realize at the time how prophetic my utterances were, but it all came true in due course. I am even more strongly of the view now that NATO would be subject to very great strains, if we were to face an economic confrontation between Europe and America.

Senator Lapointe: A few minutes ago you mentioned Mr. Malfatti and his visit, and we heard that an EEC official had complained that there was not much coverage of his visit here. Did the Government issue a press release when he came, or what is the matter with the English-language press?

Hon. Mr. Sharp: They are all sitting at the back of the room. I looked upon the visit as being of very great importance, and we devoted a great deal of time to his visit here. The press probably had something much more important to put in the headlines at the time, but I do not remember exactly.

Senator Lapointe: Do you think that Canadians are alert enough or interested enough in these problems, especially the press?

Hon. Mr. Sharp: No, I do not think they are, and I hope they will be.

Senator Cameron: They were probably concerned with the honeymoon in Madrid.

Senator Grosart: I would like to ask the minister if he would relate the EEC trading preferences to the projected Canadian general preferences with developing countries. My recollection is that we have reversed our field on that. I believe that, about the time of the first United Nations trade and development conference, we were rather against preferences. We now seem to have swung around and said that it may be they are necessary. Will there be a conflict between these two sets of preferences?

Hon. Mr. Sharp: No. I hope that the contrary will prove to be true, Mr. Chairman; that this will be one way of getting rid of the problem of the discriminatory preferences in the relationship between the former colonies of the European countries and the Common Market. If the general preference scheme comes into effect, there will be very little difference in the treatment then of imports from those countries, whether they go to Europe, or come here or go to the United States, Australia or anywhere else. I do not think I can add to that.

Senator Grosart: What was the thinking on this?

Hon. Mr. Sharp: Would you like to go back to the history?

Senator Grosart: I am interested, in a general way, as to why we changed it.

Hon. Mr. Sharp: We expressed some scepticism, at the beginning, as to the importance to the underdeveloped countries of preferences. We thought that the concentration of the interests of these underdeveloped countries on that particular issue was really to divert them from what were much more important problems. We

did this partly because of our view that it is better to have a non-discriminatory trading system than one that does discriminate. Secondly, there was some scepticism as to the assistance that these preferences would give to those countries, particularly as we see tariffs going down around the world. As I have said, the European tariffs on industrial goods are now very low. Even the American tariffs are low. Our tariffs are now medium-high compared with the generality.

So we asked at the beginning, "Why attach so much importance to the gaining of preferences?" Later, when we found that there was very general support, we said, "Well, we will certainly be prepared to participate." It was not out of any fear; There was some scepticism as to the advantages.

Senator Grosart: Perhaps we thought we would save them from our own fate.

The Chairman: Thank you very much, Mr. Minister. It has been a very rewarding afternoon.

The committee adjourned.



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

No. 3

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Second Proceedings Respecting:

**Canadian Relations with the Expanded
European Communities**

(Witnesses—See Minutes of Proceedings)



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Fergusson	O'Leary
Gouin	Quart
Haig	Rattenbury
Heath	Sparrow
Lafond	Sullivan
Laird	White
	Yuzyk—(30).

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Extract from the Minutes of the Proceedings of the Senate, Thursday, April 27, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier

Clerk of the Senate

Minutes of Proceedings

Tuesday, May 23, 1972.

(5)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 4:05 p.m. this day.

Present: The Honourable Senators Aird, (*Chairman*), Cameron, Carter, Choquette, Connolly (*Ottawa West*), Croll, Fergusson, Flynn, Grosart, Lapointe, Martin, McNamara and Quart—(13).

Present, but not of the Committee: The Honourable Senator Macdonald.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the expanded European Communities.

WITNESSES:

Department of Industry, Trade and Commerce:

The Honourable Jean-Luc Pépin, Minister;

Mr. A. W. A. Lane, Director, European Affairs Branch, Office of Area Relations;

Mr. G. Elliot—Chief—EEC Enlargement Task Force; and

Mr. F. J. McNaughton—Chief—Overseas Market Development Division, International Defence Programs Branch.

Agreed; That additional information, requested by the Committee, be supplied by the Department of Industry, Trade and Commerce.

At 6:00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 23, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 4 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of four o'clock and I declare the meeting regularly constituted. I thank you for your attendance.

At the beginning of our study of Canada's relations with the expanded European Economic Communities, the Minister of External Affairs, Mr. Sharp, gave us a broad picture of Canadian-EEC relations and discussed some of the overall implications of enlargement. Today the Minister of Industry, Trade and Commerce has kindly consented to examine with us, in more detail, the effects which enlargement may have on the Canadian economy and the more specific problems which may arise in our trade and investment relations with the Ten.

In September 1970, shortly after the Prime Minister announced that Canadian ministers would undertake a series of consultations with European governments concerning the EEC enlargement, Mr. Pepin set off on the first such trip, visiting London, Brussels and Geneva, where he consulted United Kingdom and EEC officials. The next spring he sent a mission on science and technology to the Federal Republic of Germany to help "create a greater awareness of Canadian capabilities" and "to foster a close working relationship at all levels from which will evolve exchanges of technology, information and expert personnel."

The next month, in April 1971, Mr. Pepin led a trade and industrial mission to Germany to seek stronger economic ties with that country and to "help improve our prospects for increasing exports to all countries in the European Economic Community." While in Europe he signed a science and technology agreement with Germany and with Belgium.

In addition to these visits, there have been numerous consultations in Ottawa with ministers and officials of member countries of the EEC, including: the Rt. Hon. Geoffrey Rippon; the British Prime Minister, Mr. Heath; Mr. Malfatti, then President of the EEC Commission; and Mr. Schumann, the French Foreign Minister. Besides these direct consultations of the minister and his officials, a special group was set up within his department called the EEC Enlargement Task Force whose job it is to study the implications for Canada of EEC enlargement.

It seems evident from this activity, and if I may say, performance, that Mr. Pepin is in an excellent position to bring us up to date on our problems with the enlarged EEC, an area which seems full of potential dangers to Canadian trade, but also one which offers some larger opportunities.

I might add that although there have been discussions concerning the visit by the committee to Europe, no definite plans have yet been made. In addition to the uncertainty which derives from the electoral situation in Canada, the timing of a fall visit is somewhat complicated by the EEC Summit Conference which will be held around the third week in October in Paris. Obviously, it would be undesirable to arrive in Brussels during the fortnight immediately prior to this meeting. As some of you may wish to make personal plans—and I would be very pleased to talk with any of you about this situation—I think I can say with confidence that a visit would not be arranged before late September, at the earliest, and it is more likely to be late October or even November.

The next meeting of the committee has been arranged for Tuesday, May 30 at 3.30 p.m., when we will have as our witness Professor Charles Pentland, a specialist in European affairs from Queen's University.

Mr. Pepin, I would ask you to introduce your officials when you make your presentation.

Honourable senators, I was about to welcome those you have seen enter, who are a distinguished group of European journalists. Gentlemen, we hope that your trip to Canada will prove to be an interesting one. We are very happy indeed and honoured to have you with us this afternoon. Thank you for coming.

Mr. Minister, I would like to apologize for the uncertainties connected with the date of this meeting, and thank you for persevering with us and consenting to come today in spite of your enormously heavy schedule, which I understand was a little heavier today than usual. I understand you will make some opening remarks, after which Senator Cameron will lead off the questioning.

NOTE: Speaking in French, the Honourable Mr. Pepin requested the Department Officials to identify themselves; he then made the same request in English.

The Hon. Jean-Luc Pepin (Minister of Industry, Trade and Commerce): I will ask my officials to identify themselves with their titles, so that the committee will feel in security and confidence.

NOTE: The following then introduced themselves:

Mr. A. W. Lane, Director, European Division, Office of Area Relations, Department of Industry, Trade and Commerce.

Mr. G. Elliot, Chief, EEC Enlargement Task Force, Department of Industry, Trade and Commerce.

Mr. F. McNaughton, Chief, Overseas Market Development Division, International Defence Programs Branch, Department of Industry, Trade and Commerce.

Mr. John B. McLaren, Chief, European Division, Regional Marketing and Operations, Trade Commissioner Service, Department of Industry, Trade and Commerce.

Mr. W. J. O'Connor, Chief, Grains Division, Department of Industry, Trade and Commerce.

Senator Connolly: Might the European journalists introduce themselves?

NOTE: The following then introduced themselves:

Mr. Christopher Marley, *The Times*, London.

Mr. Robert Held, *Frankfurter Allgemeine*.

Mr. Age Ramsby, *Expressen*, Stockholm.

Mr. Voluer Schröder, *Handelsblatt*, Dusseldorf.

Mr. Ib Forchhammer, *Borsen*, Copenhagen.

Hon. Mr. Pepin: It will not change anything I intended to say!

The Chairman: I hope the translation facilities will suffice, so that you will be able to understand. You might locate yourselves beside one another to assist each other.

Hon. Mr. Pepin: I will be speaking English, so that the only translation necessary will be from my English to their English!

Senator Choquette: Mr. Minister, I do not wish to be a bigot, but how many of your officials are bilingual? I notice there is not one French-Canadian name there.

Hon. Mr. Pepin: Mr. Lane speaks French.

Senator Choquette: Mr. Pepin, I can ask that question, I hope?

[Text]

L'hon. M. Pepin: Monsieur Lane, vous parlez très bien le français, n'est-ce pas?

[Translation]

The Hon. Mr. Pepin: Mr. Lane, you speak very good french, is it not?

[Text]

M. Lane: Un petit peu.

[Translation]

Mr. Lane: A little bit.

[Text]

L'hon. M. Pepin: Monsieur Elliot, vous parlez bien le français?

[Translation]

The Hon. Mr. Pepin: Mr. Elliot, do you speak good french?

[Text]

M. Elliot: Seulement,—je suis un cours de français à l'école.

[Translation]

Mr. Elliot: Only,—I am taking a french course at school.

[Text]

L'hon. M. Pepin: Un cours d'immersion totale? Monsieur McNaughton?

[Translation]

The Hon. Mr. Pepin: A total immersion course? Mr. McNaughton?

[Text]

M. McNaughton: Je parle français un peu.

[Translation]

Mr. McNaughton: I speak a little bit of french.

[Text]

L'hon. M. Pepin: Monsieur McLaren?

[Translation]

The Hon. Mr. Pepin: Mr. McLaren?

[Text]

M. McLaren: Un peu.

[Translation]

Mr. McLaren: A little bit.

[Text]

L'hon. M. Pepin: M. O'Connor parle une langue tout à fait spéciale; il parle «blé»!

[Translation]

The Hon. Mr. Pepin: Mr. O'Connor speaks quite a special one; he speaks "wheat"!

Before speaking of the relations with the EEC, Mr. Chairman, I would like to congratulate the committee on the work it has done with respect to Canadian relations with the countries of the Pacific. I was privileged to appear before you, I think twice, with many other people. I expressed the view at the time that our economic relations in the Pacific should and were taking on increasing importance, more commensurate with Canada's position as a Pacific rim country and with the potential of that vast and important market. I regret that the press did not, in my view, pay enough attention to the work you have been doing. For my part, I have used every occasion to give you the publicity that you well deserve.

Senator Flynn: We are used to it.

Hon. Mr. Pepin: I regard the report of your committee as a most valuable contribution to the purpose for and the end to which we are all working. The "national presence," I, and the "regional consciousness" for which you worked, in my view, is improving.

I have endeavoured to do my best towards the same objective, if I may pay myself a compliment, by means of the trips which I have made with a group of businessmen to Japan, China and, with officials, to Korea. I attempted to attract as much attention as I could. Some say that I have done reasonably well at that.

Since then I have met with the Canadian branch of PBEC. I also followed your views with respect to the need to develop, I quote, "a counterpart to the Japanese trading corporations" in Canada. Studies are being carried out on this subject.

I might underline the fact that we are using these Japanese trading corporations now much more than at any time in the past. You are aware that in recent weeks three of the major trading companies have been in Canada—Mitsubishi, Sumitomo and, most recently, Marubeni. Mitsubishi told the press that in the short period or time they were in Canada they developed \$20 million-worth of added exports from Canada to Japan and third countries. Marubeni, the other day, mentioned a \$30 million increase in the coming year. Mitsui and C. Itoh are coming too, Mitsui in the coming weeks. This will be a pretty profitable exercise, I suggest.

Senator Connolly: Mr. Minister, are they exports from Canada?

Hon. Mr. Pepin: Yes.

Senator Connolly: How are they getting along on the other side, by way of exports to Canada?

Hon. Mr. Pepin: They are doing extremely well. For the first four months of 1972 Japanese exports to Canada were increased by some 75 per cent. Our own exports to Japan are down by some 12 or 14 per cent, because of the slowdown in the industrial activity in Japan. You are all aware of that I am sure. The present rate of industrial production in Japan is only 5 or 6 per cent higher than it was last year. In Japanese terms this is a catastrophe! In terms of every other country it would be a very good performance! So much for the Pacific, Mr. Chairman.

The Chairman: Might I thank you, Mr. Minister, because your remarks mean a great deal to me in my capacity as Chairman. Senator Grosart, as Vice-Chairman, and all members of this committee are indeed grateful to you for your very kind reference to our work. That report represented a great number of man hours and, as I said in my remarks when I presented it to the Senate, it was a participating event and very much a committee effort. On behalf of all members of the committee we are indeed grateful. Thank you, sir.

Hon. Mr. Pepin: You are quite welcome. With respect to EEC, Mr. Sharp has already covered much of the general ground, as you commented, Mr. Chairman. Therefore much of what I will say will relate to details. I endeavoured to organize, with the support of my officials, of course, all the material in a very professorial and academic fashion in order that the committee may use it, hopefully, as a reference for whatever further study they wish to make.

I will first speak of the *significance of EEC and enlargement*. I will then talk about its meaning to Canada, to our exports. I will then cover "what we have done about it". My fourth point, quite logically, will be what we further plan to do.

I. First of all: The economic and the political significance of EEC.—The formation of the European Communities—as you know, there are three of them, the economic, the

coal and steel and the atomic energy, 14 years ago and their enlargement in the near future to include Great Britain, Ireland, Denmark and Norway, are having far-reaching effects, as we all know, on world economic and political relationships. The enlarged Community will have a combined population of 260 million people, one-quarter greater than that of the U.S.A. and slightly above the population of the U.S.S.R. It will also have a gross production of approximately \$650 billion, which is more than double the gross production of the U.S.S.R. and a little more than two-thirds of that of the U.S.A. These simple figures indicate the magnitude, importance and significance of the formation of the enlarged EEC. Every other nation in western Europe is seeking some form of association with the Community and many former dependent territories and other countries, especially around the Mediterranean and Africa, have obtained or are being offered associate status.

The power of the attraction of the EEC must be underlined. The Community is already one of the world's super powers in economic terms. As the member countries deepen their integration, referred to en français as l'«approfondissement», we can expect to see an increasing degree of similarity and co-ordination in their approach to major political questions. As we all know, the Treaty of Rome emphasizes the political objective of the Community.

While the eventual formation which the political and economic integration of Europe will take is unclear at present—as we know, federalism can take minuses and pluses, the members of the Community have already given up a good deal of their economic sovereignty, and current plans for moving towards common monetary policy would involve a further big step in the direction of federalism.

I repeat that the final political form that western Europe will take is not yet too clear. I always say about Canadian federalism, "as it was in the beginning, as it is now, and as it shall not be, world with an end". I presume the same kind of flexibility will show itself also with respect to the form of federalism that Europe will finally adopt.

Senator Flynn: Or even better.

Hon. Mr. Pepin: They can do better than we do! They can also save themselves a lot of time by using our experience, which is also debatable, I presume.

Progress which has been made towards European unity, during the past three decades, in the face of some serious difficulties and in spite of periodic crises, suggests that it is one of those irresistible forces of history which one should try to accommodate to and which it is futile to try to stop, even if that were desirable. That we must do.

II My next point *What does it mean to Canada?* It being the formaion of the European community and enlargement in particular?

The entry of Britain and of the other three applicants into the Community, and the coming establishment of an industrial free-trade area with six other European countries referred to as the EFTA non-candidates, and the association of many former British independent territories in various parts of the world, will bring about many changes in Canada's trading relationships with all of these countries, and in our terms of access to their markets

including our competitive position vis-à-vis other suppliers.

There are so many uncertainties and complexities about the trading impact of these changes that it is intellectually possible to reach quite different conclusions about how Canada will be affected. This is one of my favorite themes! I have developed it before, and I suggest it is a valid one. The future has so many uncertainties that anybody who pronounces final judgment on the effects of EEC enlargement on Canada is a much better man than I am, and better than the whole Department of Industry, Trade and Commerce!

I suggest that there are two ways of looking at it, one is pessimistic and the other is optimistic. I mention the pessimistic way first, because people always like to hear bad news first! The more pessimistic view of the implication of British entry on our exports to Britain would stress the following points:

1. There will be worsening in the terms of access for close to \$700 million worth of Canadian exports to our second biggest market, affecting almost all trading items except primary products. I mean that \$700 million worth of exports to Great Britain will be affected by the entry of Great Britain into the Common Market; and this worsening includes such major items as wheat, aluminum, lead, zinc, barley, tobacco and linerboard.

2. For nearly \$450 million of this \$700 million trade there will be a complete turn around, from a situation where we have tariff preferences in the British market, to one in which we will face "reverse preferences" in favour of European countries and have to compete on an equal basis with other outside suppliers. So of \$700 million worth of exports, affected unfavorably, \$450 million will now face reversed preference. The other members of EEC will be on the British market in the same advantageous position which we enjoyed in Britain in the past.

3. In the case of agriculture, which accounts for close to \$300 million of Canadian exports to Britain, we will, for 90 per cent of this trade, face the highly restrictive common agricultural policy of the EEC. Again, Mr. Chairman, the figures to remember are \$700 million, \$450 million and \$300 million. If one looks at those, the picture is pretty dramatic.

If one takes the more optimistic view, which I personally think is a much more balanced view, one will bring out the following considerations:

1. over one-half of our exports to Britain, some \$800 million worth of trade, will continue to enter duty-free.

2. The amount of trade which will face less favourable terms is only slightly more than 4 per cent of our total exports to all countries, and much of it is likely to be able to adjust to the new conditions.

Senator Connolly: Would you repeat the last statement?

Hon. Mr. Pepin: Yes. The \$800 million represents 4 per cent of our total exports. I am trying to put the whole thing in perspective.

3) The changeover to the EEC common tariff and common agricultural policy in Britain will take place over a four- or five-year transitional period, so that the full duties and levies will not be collected on our exports

until 1977. It is a progressive increase in tariff for Canada, as honourable senators know. The emphasis is here on the transitional period.

4) The EEC tariff on industrial goods is, on average, less than 10 per cent and lower than that of the United States and Japan. Moreover, now that the Community has agreed with the USA and Japan— and Canada has also agreed— on initiatives for a new round of major trade negotiations commencing in 1973, there are good grounds for hoping that by the end of the transitional period in 1977 EEC tariffs and other import barriers will have been significantly reduced, and we will certainly be working towards this objective in these negotiations.

5) In any case, terms of access do not tell the whole story. We must also take into account such factors as our strong international competitive position for many items, inter-company arrangements, and the distinctive characteristics of some of our products for which no satisfactory alternative sources are available. In some cases it may still be possible for our exporters to go on selling to Britain, but they may find more profitable markets elsewhere, and the department will, of course, help them in this.

6) In the agricultural sector, the British have expressed the view that the two biggest items, wheat and special quality malting barley, «are likely, although facing levies under the common agricultural policy, to be affected only marginally if at all». That is a quote from the White Paper on the UK and European Communities, page 31.

The British base this conclusion on the fact that the hard wheat necessary for the type of bread traditionally in demand in Britain, and the special quality malting barley they need, are not available anywhere in the enlarged Community. These quality factors will undoubtedly be of help to us, and we hope the British are right in thinking that they will be important enough to enable us to retain this important business.

There is an element of consumer taste, of consumer demand in some of these products. I singled out wheat. I could also single out cheese and tobacco. It may be that the British are going to convert in time to Western European brown tobaccos, but some people doubt that, having been exposed to those tobaccos! It may also be that the British will learn to eat more Western European cheeses, but some people believe that they are so attached to Cheddar that they will not easily be converted to it. Again, there is here an element of consumer taste, Mr. Chairman, which is rather unpredictable.

7) In agriculture the EEC has agreed to the inclusion in the treaty of accession of certain safeguard provisions designed to prevent the abrupt dislocation of agricultural trade, including that of third countries. I would be the first to underline that this clause is, of course, yet to be tested and some adjustments in agricultural trade appear to be unavoidable.

8) I also underline that a general factor on the positive side is the dynamic effect Britain's entry to the EEC will have on its economy, and, consequently, on British imports. As you are aware, Britain's rate of growth has been slower in recent years than that of the EEC, and its imports from us have been expanding at a less rapid rate than those of the EEC. The argument is that Britain's entry and the entry of the other three former EFTA mem-

bers will mark such a growth of economic dynamism and of wealth in Western Europe that the disadvantages of entry will be carried away on a wave of progress and prosperity. I say amen to that, as we all do.

III. My third question: *What has Canada done up to now?*

1) Canada is not a party to enlargement negotiations. We have sought to safeguard our interests to the maximum extent possible, though it must be noted en passant that scope for doing this was limited since the British from the outset agreed to accept the common external tariff and common agricultural policy. I am simply underlining the fact that it was not a completely open debate; they accepted from the point of departure the common external tariff and the common agricultural policy.

As the chairman reminded us a moment ago, the Prime Minister, the Secretary of State for External Affairs and myself have maintained continuous dialogue with Britain and other participants throughout the enlargement negotiations in order to keep our interests before them and ensure that they take into account implications for their trading relationship with Canada.

We worked very closely with the British in particular on their lists of "sensitive materials"—you have heard the expression, I am sure—for which they were seeking special quota arrangements. Our efforts, together with initiatives taken by the Canadian forest industries, contributed to the successful negotiations by Britain of duty free quotas for newsprint, woodpulp and plywood which permit this trade to continue. These items, together with phosphorus which will benefit from a similar arrangement, account for about \$165 million of Canadian exports or 11 per cent of our total sales in British markets. We feel that by good negotiation we have protected this further 11 per cent.

We also negotiated an interim arrangement with Britain on cereals which preserves our contractual rights for later use in relation to Britain's adoption of the common agricultural policy.

In conjunction with the Canadian Pulp and Paper Association we also sent a mission to London and other EEC capitals with a view to protecting the position of our paper exports to these markets in the face of a proposed industrial free trade area between the community and some of our competitors in this field.

That might be expanded on, if you feel interested, but on my last trip to Rome I simply brought to the attention of Italian authorities that they would be wise to make sure they have more than one supplier in the future and that it was in their best interests to make sure that their forest products could also come from Canada as well as coming from Scandinavia. This is the type of frank talk that we are having with European governments.

Senator Connolly: Are they amenable to that kind of discussion?

Hon. Mr. Pepin: Well, I cannot speak for them, but they received our views with obvious interest.

2) Still on the diplomatic side, we have been taking steps to improve and strengthen our relations with the EEC. We have sought to intensify consultation with the community so as to obtain better receptivity for Canadian interests

and lay the basis for co-operation in areas where we have mutual trade and economic interests.

The Secretary of State for External Affairs and I have both had a round of consultations with the EEC Commission in Brussels. As Mr. Sharp has already pointed out to your committee, the then president of the Commission, Mr. Malfatti was in Ottawa last fall and we now have an agreement with the commission to hold consultations with us regularly in the future on the same basis as it does with the United States.

We have also been laying the basis for interchange and cooperation in science and technology. As you know, agreements were signed last year with Belgium and Germany. We sent technology missions to these countries and we had discussions with Britain on the best way of furthering cooperation with them in this field. I could expand later on the success of this approach.

We have finally been working to remove irritants in our trade relations with the EEC, especially as regards our agricultural exports. One success recently reached was in the removal of border taxes on rapeseed which accounted for \$66 million of Canadian exports to the EEC in the crop year 1970-71.

3) In another area of activity, we have been putting major emphasis on supporting efforts by the Canadian business community to penetrate European markets more effectively. I might remind you that one-third of our officer strength in trade commissioner service is deployed in 21 offices in the European countries which will constitute the enlarged community or be associated with it. I might also remind you that I led a major mission of senior businessmen to Germany, the biggest market in the community, last spring to spearhead more systematic and determined development of the possibilities of trade and other forms of economic cooperation with that country. As a result of these missions ten joint government and industry groups are now searching out these possibilities in greater depth.

A mission of senior Canadian industrialists was sent to Sweden in May of 1971 with the objective of increasing sales of high technology products. That mission has resulted in the sale of Canadian marine equipment and there are also other good prospects in electronic equipment for aircraft. The department participated in eleven trade fairs in Western Europe in the 1971-72 fiscal year. I have further notes on this particular item. This represents an expenditure of a little more than \$1 million in 1971-72. The results have been good. I might give you two or three examples. We took part in Germany's industries fair in Hanover, in April, 1971. This fair specializes in electronic equipment and machinery. We made \$700,000 worth of onsite sales and possibilities exist for the following twelve months of \$6.7 million. We also took part in the Interstoff fair specializing in textiles. Onsite sales of \$5.8 million were made and the forecast of derived sales for the following 12 months is nearly \$15 million. Another fair Canada took part in was the International Hotel and Catering Exhibition in London in January of 1972. On that occasion we reached onsite sales of nearly half a million dollars and a forecast of derived sales of \$2.5 million. The Interstoff fair is a particularly good example. I am proud of the Canadian performance there because for a long time Canadian

textile producers said that they could not export textiles too easily. The results demonstrates the opposite.

We have also introduced—and I am quite sure you are aware of it—a series of risk-sharing incentives for Canadian manufacturers and the Canadian service industries, which should improve Canadian participation in capital projects abroad, enable Canadian manufacturers to identify and take advantage of market opportunities abroad, take part in trade fairs on an individual basis, and bring potential buyers to Canada. You know now that if, for example, the Canadian government does not take part in a fair in France, Germany, or anywhere else, but if you as a specialized manufacturer want to do so, the department will pay up to 50 per cent of your expenditure. Similarly, we have new programs now to bring importers to Canada. Very often it is easier to bring the buyer here than to go and see him abroad. When he comes to Canada he often has a better facility to investigate and observe the use of the product in which he is interested than he would have by simply looking at the publicity.

Senator Connolly: You mentioned the transfer of capital from Canada abroad.

Hon. Mr. Pepin: No, capital projects, for a power development for example. The bidding procedure on these capital projects is very expensive. You may have bid two or three times already this year; it might have cost you \$250,000 each time. You welcome government support on the next round. The department will pay 50 per cent of the cost of the bid. If you win it you give the government back its money. If you do not, you forget it, and so does the department.

The Chairman: Is there a ceiling on that?

Hon. Mr. Pepin: My memory tells me it is \$50,000, but I do not always count on my memory. Is there a ceiling?

Mr. F. J. McNaughton, Chief, Overseas Market Development division, International Defence Programs Branch, Department of Industry, Trade and Commerce: \$50,000.

Hon. Mr. Pepin: There is a ceiling of \$50,000.

Senator Connolly: That is \$50,000 to any one person in any one year is it?

Mr. McNaughton: I am not qualified to answer that.

Hon. Mr. Pepin: We will bring some more experts next time!

The Chairman: Has it been widely used?

Hon. Mr. Pepin: All these four programs I have indicated are already being used.

Senator Connolly: Has it been successful?

Hon. Mr. Pepin: I will have to ask for an up to date report. The most popular one up to now has been the Incoming of Buyers Program.

Mr. A. W. Lane (Director, European Affairs Branch, Office of Area Relations, Department of Industry, Trade and Commerce): It has only recently been introduced, Mr. Minister.

Hon. Mr. Pepin: All of them are pretty recent.

Senator Connolly: Perhaps I might suggest to the chairman that in due time, before the committee winds up its work, we could have a memo from someone in the department.

Hon. Mr. Pepin: That is easy. I have one, but it is not up to date. I will ask for an up to date one. I am glad you are showing so much interest, because I think this risk sharing is very useful.

The Chairman: It is a very positive form of assistance, Mr. Minister.

Senator Cameron: Does this apply in the case where we are bidding on the supplying of a nuclear reactor to another country? I understand that it costs about \$450,000 to submit a bid to Turkey or the Argentine.

Hon. Mr. Pepin: No, I do not think it has been used for that purpose. Not to my knowledge, anyway.

Senator Flynn: It could be offered by a crown corporation anyway.

Hon. Mr. Pepin: This is a special case. I will add this to the report.

The Chairman: Thank you.

Hon. Mr. Pepin: While I am boasting, may I say that the department has also played a significant role in the following success stories in Europe. You may know that major shipbuilding contracts for export to France, Britain and Greece, totalling \$163 million, have been made possible by the Shipbuilding Temporary Assistance Program. You may also know that Dassault in France has given a sub-contract to Canadair, Montreal, for Mercury II aircraft parts valued at \$21 million, with a potential increase of up to \$75 million. This was made possible by federal government assistance.

Co-operative arrangements with different countries—Germany, Italy and others—in aerospace, electronics, mechanical transport and marine equipment also provide the basis for sales of such sophisticated items to Western European countries, totalling about \$67 million in 1971.

You may have heard of the consortium created by Campeau Construction of Ottawa and the French company Dumais. They built 114 housing units of Canadian timber frame type in the Parc des Erables project at Igny near Paris. I was present at the opening.

There are all kinds of similar things. The other day I met with two Frenchmen, M. Boulot and M. Villeneau, who have created a company in France called Kanata, having borrowed the name from the village near Ottawa. They are building timber frame Canadian type houses in France, importing a lot of wood from Canada.

Senator Connolly: In the building there there is no pre-fab arrangement?

Hon. Mr. Pepin: Not in Europe, to my knowledge, but yes in Algeria, possibly soon in Israel and in the U.S.S.R. In another case, recently announced, involving a Japanese company and a Canadian company—I do not remember the name now—the wood is cut in Canada and shipped to Japan for immediate use.

Senator Connolly: For assembly?

Hon. Mr. Pepin: Yes.

4) We have also been intensifying our efforts in some countries which are or will be associated with the EEC, especially around the Mediterranean rim. Between November, 1971, and January, 1972, I visited Morocco, Algeria and Israel, in the last two countries accompanied by senior Canadian businessmen. Canadian firms are conducting negotiations in these countries that could lead to sales of Canadian goods worth several hundred million dollars. You are aware that in Algeria, in particular, the Export Development Corporation committed \$100 million worth of financing of Canadian exports. The same thing was done in Israel. The strategy is to try to get better entry and sales in all these countries surrounding the European Economic Community.

5) In addition, we have been going all out to find new markets for products that could be affected by enlargement. I remind you that Canadian grain sales set a new record in the last crop year, and this will again be exceeded in the current one. This is in spite of the overall decline in the current crop year in the world wheat trade.

The final point:

IV *What is our strategy for the future?* On the trade relations front our objectives are better access, improved co-operation and a fair balance of advantage with the enlarged community through the following means.

1) To obtain full recognition by the EEC of the unique nature of the impact of enlargement on Canada, and need of the EEC to take account of this in providing adjustments and compensations. We are making the case here that they should not compare our position with the American. The United States is not losing any preferential status, as we are.

2) We are vigorously pursuing with the EEC and other participants and remaining issues relating to transitional arrangements for certain agricultural items, as well as the implications of the proposed industrial free trade area for Canada's traditional parity of access with other European countries in Britain and the EEC market. Mr. Lane and Mr. Elliot could dwell at further length on this subject. The common agricultural policies levies have to be phased in, in a way which has not been totally refined yet. There are possible negotiations on that and possible arrangements also about apples and cheese, I understand.

3) In the GATT review of enlargement terms, which will begin shortly, and in negotiations to secure compensation for increases in contractually bound rates, likely to get under way later this year—this is the famous Article 24 of GATT—we will be taking full advantages of opportunities for significant changes in EEC common tariff and common agricultural policies.

4) We will also continue an active participation in multilateral negotiations, with a view to getting improvement in access to EEC as well as to other major markets.

5) We will continue our initiatives to strengthen consultative arrangements with the Community. This could be done by setting up a consultative committee on a ministerial basis, as we have with the United States of America and Japan; or between senior officials, as we have with the United Kingdom and France.

As Mr. Sharp told you, the former president of the commission, Mr. Malfatti, has suggested that one way of setting up a ministerial committee, including representatives of EEC member states, would be by negotiating a bi-lateral trade agreement. Such an agreement could replace those we have at present with existing members of the EEC.

6) You may have heard that we are planning to send a small mission to Europe in mid-June—am I announcing it now?—to explore ways of strengthening Canada-EEC trade relations. They will have discussions with the EEC commission and the governments of member states of the enlarged Community. These officials will be looking into the possibility of putting into place new consultative arrangements with the EEC and improving the framework for our trade relations with the new entity, by such means as the negotiation of a formal trade agreement.

The Chairman: If this is a formal announcement, Mr. Minister, do I gather that this is from the department top officials?

Hon. Mr. Pepin: There will be others, from the Department of External Affairs, Finance and, who else?

Mr. Lane: It is not settled exactly who will be on the mission to Europe, but there will be senior officials from the main interested departments.

Hon. Mr. Pepin: In the meantime the main EEC commission delegation led by Mr. Dahrendorf, the commissioner in charge of EEC external relations, is scheduled to come here this year.

Senator Connolly: With regard to that commission or group that will go over to discuss trade matters in Europe shortly, do I understand you to say, Mr. Minister, that they will discuss at Brussels the problems that are appropriate, but that they will also have discussions with the trade officials of the member countries?

Hon. Mr. Pepin: Yes.

Senator Connolly: Of the existing Six, or the enlarged Community?

Hon. Mr. Pepin: All of them I think. The situation on the trading power is a little undefined at this time. The EEC Commission responsibilities are growing, but there is still a lot of trading power in the different member states. We have in front of us an evolving position which we have to take into account. This is why our representations, our views, will be made known both at the commission and in the different member states.

Senator Connolly: Mr. Chairman, I hope I am not interfering with the minister's presentation, but it seems to me that, as we run along, sometimes we get a better idea of what the minister is telling us. It is very familiar to him, but it is not quite so familiar to us. Do you envisage bilateral treaties with the member states, rather than a treaty between Canada and the Community, as the eventual solution to the problem?

Hon. Mr. Pepin: I will let Mr. Lane comment, and I will comment on his comment.

Mr. Lane: We already have bilateral agreements with most of the member states.

As the Community develops its common commercial policies, bilateral agreements become more and more superseded. The idea is that we might consider negotiating a trade agreement with the Community as a whole, which would replace the existing agreements with the member states.

Senator Connolly: As the Community arrangements develop, do they automatically provide that the bilateral treaties, say with Canada, are renounced? Do they come to an end in some way? You say they are "superseded".

Hon. Mr. Pepin: As some of the powers which the different member states have now in trade matters are taken over progressively by the commission, the agreements that we have with the said member states on these particular items will become "dépassés", obsolete.

Senator Connolly: I see; but it is really on a unilateral basis that this happens?

Mr. Lane: It is not clear whether the Community would wish to abrogate these agreements, or whether they would eventually just let them lapse. In either case, the agreements cease to have the same significance when the powers of the trade are exercised by the council of ministers and by the commitments of the Community in Brussels. Therefore, in considering the basis of our trade relations with the Community in the future, the question has come up of establishing, or looking into the possibility of establishing, a formal agreement with the Community as a whole.

Hon. Mr. Pepin: In your own categories of constitutional law, Senator Connolly, the development of the trade power in Europe now is in the full process of evolution and we have to adjust or adapt ourselves to it and keep up with the changes which are taking place.

Mr. Lane: I could add one more point, sir. Really, this is one of the reasons why this mission is going over to Europe. It is to see how the Community deals with this whole question of bilateral agreements and how they envisage developing their trade relations in the future.

Hon. Mr. Pepin: This is not done on a theoretical line; this is done on an experimental one. Whatever the situation is this year, it is not the same as what it was last year and what it will be next year. So one of the purposes of the high level mission is to gather as much information as they can on how present leaders see this developing process.

Senator Grosart: I wonder if I could ask the minister to supply us, in due course, with a list of the current bilateral agreements with the existing Six, the Ten, and the fifty?

Hon. Mr. Pepin: Who are the fifty?

Senator Grosart: The total that you referred to, of those who have preferential agreements or privileged access of one kind or another to the EEC.

Hon. Mr. Pepin: Can we provide that Mr. Lane?

Mr. Lane: We have agreements now with Belgium, Luxembourg, France, Italy and the Netherlands; and

among the acceding countries we have the bilateral agreements with Britain, Denmark, Ireland and Norway.

Hon. Mr. Pepin: But the senator is looking also for the agreements that exist between the EEC members, between them and the associate members and the countries with preferential agreements.

Senator Grosart: And, if possible, the terminal dates of those agreements.

Hon. Mr. Pepin: I am quite sure the commission could provide you with that. It probably would be a book—fifty pounds heavy.

Senator Grosart: Just the names.

Hon. Mr. Pepin: I thought you wanted the contents.

Senator Grosart: No.

The Chairman: The senator just wants the names and the terminal dates.

Senator Flynn: Would these agreements lapse because it is provided there that if they come in conflict with the general policy of the Community they are abrogated? Is there a rule of that kind?

Mr. Lane: Are you speaking of our agreements?

Senator Flynn: No. Take the agreement with France, for instance. Does it lapse because it is provided therein that if it comes into conflict with the policy of the EEC, then the policy of the EEC supersedes the terms of the agreement?

Mr. Lane: I wonder, sir, whether you are thinking of the treaty under which the EEC came into effect?

Senator Flynn: No. I was speaking of the agreement between Canada and members of the acceding countries.

Mr. Lane: In the case of all the agreements I have mentioned, they do not automatically lapse. There is a provision for either side to give so many months notice of termination.

Senator Flynn: And the notice of termination is given because there would be conflict between the agreement and the policy of the EEC generally.

Mr. Lane: That is right, sir.

Senator Grosart: It could be given for any reason.

Mr. Lane: In the case of the agreements with the existing members of the community there is probably no conflict because they would not be contravening the terms by entering into the association between themselves. It is really more that they have become outdated. The provisions are no longer relevant.

Hon. Mr. Pepin: As it stands now, it is a complex situation. You go to the Commission for certain types of agreements and you go to the member states for other types. For example, on science and technology agreements you go to the different member states. That is still the situation, but whether it will be the situation in two or three years' time I do not know.

Senator Connolly: You have to deal with it pretty well on an ad hoc basis, from what you are saying, and just have to watch it from year to year and day to day.

The Chairman: Mr. Minister, you might come back to this point.

Hon. Mr. Pepin: Yes.

7) We are also examining with other Commonwealth countries, especially the Commonwealth Caribbean countries, Australia and New Zealand, ways of minimizing the impact of British entry into the community in our own bilateral trade relations with them. As you know, there was a Canadian mission recently in Australia and New Zealand for that purpose.

8) On the market development front we are aiming to expand Canada's participation in European marketing significantly. We intend to increase the share of manufactured goods in our exports. In addition to intensifying exports already described, in late March we held a conference of all our senior trade commissioners from Europe which was aimed at developing new marketing thrusts in these countries.

The second phase of this operation was to get together with some 250 businessmen under the auspices of the Canadian Manufacturers Association and the Canadian Exporters Association, in order to strengthen our partnership for export with them and encourage them to give new impetus to market development efforts in Europe.

Mr. Chairman, I have just given the committee a number of examples of the activities we have deployed in recent times and will deploy in the future in order to enhance our position in the European market.

I might end up in a rather philosophical mood, referring to the three major options for the longer term which are offered to Canada.

The first option for Canadian trade is some form of association with the Community. This has been suggested in the press as a possibility on some occasions. Some people have asked, "Why not join them also, if everybody or nearly everybody else is doing so?" First, full membership is open only to European countries. Notwithstanding our eagerness to claim two "mothers-in-law" in Europe, we are not a European country. Also underlined is the fact that no developed country outside Europe and the Mediterranean has been offered an associated status. We have not been offered an associated status either by the community.

I would just remind ourselves too that four-fifths of our trade is with other parts of the world. I do not think we should rush too rapidly to that particular option. But since it has been referred to I thought I should cover it.

The second option which is mentioned in many places, and at times by prominent politicians, is the option of joining a North American bloc. Some people are saying, "Well, you know, maybe we should have our North American bloc, too, if everybody else is going to have one." I suggested one day that we should have a new slogan: "Un-bloc-ed" countries of the world unite! But that was more a facetious remark than a serious one.

A North American bloc might well bring great benefits to Canada over the long run, economically anyway. There

may be some supporters of that option here. I am not sure. There is no doubt that there would be some difficulties in bilateral negotiations on special commodities or industrial sectors. Canada is and would be in a relatively weak bargaining position vis-à-vis the United States. There is already a tendency in many sectors for decision-making to move south of the border. The Canadian vulnerability to influences from the economy of the United States would increase in that kind of bloc. The difficulties we are experiencing now with the automotive agreement should be a cooling factor in some people's enthusiasm for a North American bloc. I speak for myself at this moment.

But anyway it seems to me that the most important argument against is that the economic integration would sooner or later necessitate the development of continental politics, which would lead, in my view—you may disagree with me, of course—to the erosion of the Canadian political sovereignty.

If more and more decisions in a common Canada-U.S. bloc—and some people suggest that Mexico should be added—if decisions were to be taken more and more often in Washington, as would appear to be the case, then, sooner or later, there would be a movement to have representation where the decisions were being made. Consequently, it would seem to me, political integration would sooner or later follow this kind of economic bloc-making. At least my reading of history is that either you go one way to political integration, which is, for example, the story of the Zollverein in Germany, or you go into a division. I do not know of many cases of economically close alliances that have remained that way. Do you, Senator Croll?

Senator Croll: I was wondering whether the argument that the decisions might be made in Washington for a Canada-U.S. bloc was any more valid than the argument that the decisions would be made in Brussels for that group. Is one more valid than the other?

Hon. Mr. Pepin: There are two differences. First, in Europe you have a number of entities, many of them of relatively similar size and economic power. In the case of a Canada-U.S. association, there is a big country and a small one. The balancing act would be much more difficult. The other difference is that the treaty of Rome indicates a direct political objective which does not exist I assume in the minds of most people talking about a common market between Canada and the United States. I have not heard anybody yet say that a much closer economic association with the United States should be followed by the political disappearance of Canada as a special entity.

Senator Croll: How far does the treaty of Rome go in that respect?

Hon. Mr. Pepin: It indicates that political integration is the objective.

Senator Connolly: When the delegation from the Council of Europe were here a little over a year ago they were almost insistent that political integration was bound to come. They were politicians, but they were saying that integration is coming. They said it has to come and, as I remember their statements, that the community will fall apart if it does not come.

Hon. Mr. Pepin: Just to finish on that subject, the third option, the one that I, at least, go for is a continued world-wide approach, for Canada, stepping up our efforts to diversify our trade and throwing all our weight behind the initiative aimed at freer world trade.

To me this is the only course that makes sense for Canada under present circumstances in terms of maintaining our identity and sovereignty to the maximum extent, in terms of spreading our trade risks and in terms of ensuring sufficient room for manoeuvre to develop Canadian resources and industry in accordance with our own national objectives.

Thank you very much.

The Chairman: Thank you very much, Mr. Minister, for a very wide-ranging and yet specific presentation.

I have asked Senator Cameron if he would lead the questioning, and I have received notification from Senator Grosart; of course, I shall recognize anybody else in due course, as we go along. I was interested in your remark with regard to consultations with the EEC on a continuity basis, and that you really regard Canada as being in an equivalent position to that of the United States. I trust that as the questioning develops somebody will touch on this because I feel it was a somewhat sweeping statement.

Senator Cameron: Mr. Chairman, at the outset I think we must congratulate the minister on the energy he has put forward in the last three years in trying to develop markets in different parts of the world. I have just followed his trail in Japan and China, and I saw the reference to «Typhoon Pepin» sweeping over Asia. I am wondering now if there will be one of those warm winds drifting over the European continent as a result of his travels there. At any rate, the initiatives taken by the Minister are absolutely necessary. When we look at the spectacular results of the development of the European Common Market and what might be called a rationalization of the economies of those countries, does the minister think that it is inevitable that we must in the same way rationalize our productive processes in Canada? Here I am thinking of another report which you are familiar with—the Science Policy report—where we are suggesting that we must expand our secondary industries to provide more jobs, and some form of rationalization must take place to enable us to compete.

I have just come from a meeting of a group of chemical producers who say that they need a market of 100 million people to get the economies of scale, and the only way we can get that is through some form of rationalization. How do you see that being applied in Canada—on a similar scale or on a modest scale—to the rationalization that has taken place among the countries of the European Community?

Hon. Mr. Pepin: I understand Adlai Stevenson said once that what we need today are new clichés. In this instance the old ones will do in the sense that it is only, having regard to the small markets we have, by specialization, rationalization and greater efficiency that the Canadian economy can live and progress under the third option that I referred to.

From that point of view I made some good speeches such as you have referred to—they were not well reported—on the necessity to protect the Canadian «common

market.» Here we are with 21½ million people; this is our own little «common market,» and there we are doing our best to split it, as if it was not small enough already, by all kinds of interprovincial quarrels, «chicken and egg wars» and that sort of thing. So I have tried my best to make people aware of the necessity of keeping our common market in Canada as closely integrated as possible, and yet we are having trouble with that.

I agree with the implication of your question; it is only being extremely dynamic, intelligent and forward-looking that we will live well in this new world of trade which we have in front of us now. Personally I have kept repeating—and here I must be careful about the words I use—that we have to develop more specific Canadian institutions and ways of dealing in international trade. Let me give you a couple of examples of what I mean. Dealing with anti-combine attitudes, for example, we have accepted much too easily in Canada, in my view, the anti-combine philosophy that exists in the United States. Here we are in Canada trying to prevent the development of bigger companies when our companies are small by US standards. This is one instance where we have not developed a sufficiently Canadian approach. Let me give you another example; fortunately you have given me support—

Senator Connolly: Did you speak to the Minister of consumer and Corporate Affairs on that point?

Hon. Mr. Pepin: Let me give you another example. You suggest in your report on the Pacific that we should look in Canada at the development of trading corporations along the lines of those in Japan. We have not done that because there again we are taking the US approach. They have these big corporations. General Motors does not need any support from anybody to trade around the world. We have been reproducing in Canada the US pattern and I suggest it does not fit too well.

The difficulties are obvious. The Canadian Government cannot easily indulge in the formation of a trade corporation of the size of Marubini or Mitsubishi, because immediately the Canadian Government would be asked by other countries to which we export tremendous quantities of wheat or minerals to take the counterpart of that in barter form or bilateral sales form. So, as a government we should not and we will not be involved in the creation of governmental state trading type of trading corporations.

Senator Grosart: But we already have them.

Hon. Mr. Pepin: Where?

Senator Grosart: The Wheat Board.

Senator Flynn: And what about the Canada Development Corporation?

Hon. Mr. Pepin: I was just going to conclude that the way I see it we, as a government, should make sure that such corporations exist in the private sector, because they have become a fundamental element of international trade today.

Senator Connolly: This is a big question, and perhaps we should not be asking you too much about it today. It may

well be something that we should have an opportunity of discussing again.

Senator McNamara: Reference has been made to the Wheat Board, but it is not an appropriate example because while the Wheat Board is a state trading organization for export they do not have the same power as the Japanese trading agencies have to deal in two-way trading.

Senator Grosart: It is still a Crown corporation, in effect.

Senator McNamara: We are operating in the interest of the producers.

Hon. Mr. Pepin: What is wrong with that as a formula, Senator Grosart?

Senator Grosart: My suggestion is that our Canadian problem is capital. If our private enterprise system cannot generate the kind of capital we need, then in the Canadian situation it would seem that it must come from the government; and if the government is going to provide capital then it is going to have an element of control. I see no reason why we should not have exactly that kind of corporation.

Hon. Mr. Pepin: I try not to be an excessive interventionist, but at the same time I am affected by what I see every day. When the Japanese Mitsubishi group came to Canada they indicated that 85 per cent of the people they had met during their trip had not been to Japan nor did they apparently intend to go. Then in the very next breath they told me they were tremendously impressed by the quality of the technology which they found in Canada at the second level of industry, the medium-sized industry. So there we are; we are not sufficiently organized for export purposes. There must be something missing when all of these manufacturers who, according to the Japanese, have relatively high technology are not in a position to export sufficiently.

Senator Flynn: Are you saying this as an alternative to the effect of the European Common Market on our export trade? You seem to be looking elsewhere first, and then to the EEC.

Hon. Mr. Pepin: I am saying that if we wish to live comfortably in prosperity under option 3 we will have to be extraordinarily intelligent, dynamic and aggressive because this will not be an easy world in which to deal. I am merely saying that we will have to mettre tous les instruments de notre côté—we will have to use all available methods in order to make our international position as strong as possible.

Let me give you another small illustration. A few days ago a Japanese group visited a number of companies specializing in fish. They came to a warehouse where there was a quantity of eels. The Japanese asked what the eels were doing there! I am merely reporting what I heard on that occasion. The manager of the warehouse indicated that the eels were too small to be sold in Europe or Scandinavia. Apparently, Scandinavians use large eels in their smorgasbords.

Senator Cameron: They certainly do.

Hon. Mr. Pepin: These eels were very small and they were not selling. If my memory is correct, there were 25 tons in warehouse. In Japan smaller eels are a delicacy, so the group purchased all 25 tons right off the bat. That sort of things make you think.

Senator Connolly: It is a matter of marshalling the potential and then using it.

Hon. Mr. Pepin: Since then, everyone is looking for small eels!

Senator Flynn: Mr. Minister, what is worrying me is that we are here to determine the effect of the enlargement of the European Common Market. You seem to be suggesting that the only solution is to sell a greater quantity outside of this market, to increase the export, is that correct?

Hon. Mr. Pepin: No, my views are easy to understand. I feel we should maximize our situation and we should not ignore any market or any method of promotion and marketing. This is what I am saying.

Senator Flynn: It is obvious that if we are the best in the world we will finally succeed.

Hon. Mr. Pepin: What I am endeavouring to say is that we could be pretty good and not be sufficiently aware of it. For example, the purpose of the science and technology agreements we have signed with Belgium and Germany is to gain more knowledge, and to find new opportunities for trade with different countries.

Thank you very much, Mr. Chairman, for indicating that my presentation was board, because the purpose of it is to give you the best possible impression of the different means we are using to maintain and expand our position in the European market. I am just suggesting that there are other methods that we are not using possibly because of "cultural" reasons.

Senator Flynn: What is the effect of the European Common Market as it is now, and what is the effect of the enlargement of the European Common Market? This is my point. The total of our exports to the United Kingdom and the European Common Market for 1971 was in the order of \$2.4 billion. I realize the U.K. only represents about 50 million people, whereas the rest of the Common Market represents around 200 million people. What has been the effect of the Common Market, as it is now, in relation to our exports to this part of the world? Have they decreased since the Common Market was instituted?

Hon. Mr. Pepin: The Common Market enlargement is not in effect yet.

Senator Flynn: Yes, I am aware of that. I am merely asking what the effects of the institution of the Common Market itself have been.

Hon. Mr. Pepin: Mr. Lane may give us some statistical background on this matter. However, our exports to the Common Market in 1966 were \$636 million. In 1971 our exports were \$1.085 billion. Our exports have nearly doubled between 1966 and 1971.

Senator Flynn: Is that good?

Hon. Mr. Pepin: Somebody may feel it is good.

Senator Croll: How do you replace this? Is that not your job? You did not indicate how you were going to replace approximately 16 per cent of our total trade.

Hon. Mr. Pepin: The whole purpose of my exercise today is to indicate how difficult it is to assess in practical terms what the effect will be. The Europeans say, "Canadians are a bunch of crybabies; they worry all the time. They worried about the Marshall Plan and they worried about the Kennedy Round." They wonder why we do not exercise a bit of faith. In my presentation I endeavoured to show that there was a pessimistic approach to this matter, and I gave all the figures one would need in order to be pessimistic! I gave what I thought was an optimistic, realistic approach. I indicated that much of the losses could be made up in different ways, both in Europe and elsewhere. I tried to indicate that the drama was not as high as it is sometimes suggested.

Mr. Lane: The 4 per cent you have referred to is not trade which we would lose; it is trade which would face less favourable access terms.

Senator Grosart: You are referring to United Kingdom trade only?

Mr. Lane: Yes.

Hon. Mr. Pepin: You did not say that clearly enough. Would you indicate again what the 4 per cent represents?

Mr. Lane: The 4 per cent represents a percentage of our total exports to all countries which will face less favourable access terms when Britain enters the European Economic Community. In many cases items which make up the 4 per cent are already being sold in markets which do not enjoy the benefit of preference or where the tariffs are as high or higher than the EEC. As the minister has indicated, we hope that much of this 4 per cent will be retained.

Hon. Mr. Pepin: Mr. Lane, Senator Croll has asked whether we have an opinion to present to this committee as to how well we have been doing in the western European market in the last five years. What is your answer to this question?

Mr. Lane: Our exports to the European Common Market have doubled from 1966 to 1970. In fact, in the last few years they have grown much faster than those to Britain, where we have had all the benefits of the tariff preferences and the free entry.

Senator Flynn: Then why should we worry about the enlargement? If we have been doing well with the present Common Market, why should we do worse with the enlarged Common Market?

Hon. Mr. Pepin: We were doing relatively well in Great Britain, partly anyway, because of the preference arrangements we have, some of which we stand to lose.

Senator Flynn: We have done better with the Common Market in the last five years, but I understand we have done less well with the U.K. in the last four years.

Hon. Mr. Pepin: That is quite true.

Mr. Lane: That is correct.

Hon. Mr. Pepin: It is partly due to a lower rate of economic development in Great Britain than on the continent, which is one of the reasons for the U.K. joining the Common Market. Let me give you two figures which might be useful. Exports from Canada to the Common Market in 1966 amounted to \$636.7 million. In 1971 this had increased to \$1,085.9 million. The corresponding figures with respect to the United Kingdom are for 1966 \$1,122.6 million and for 1971, \$1,345.8 million. You will see from those figures that the rate of growth, as Mr. Lane pointed out, has been much slower for Great Britain than for the Common Market.

Senator Cameron: But in 1971 there was a reduction of exports to the EEC.

Hon. Mr. Pepin: Yes.

Senator Cameron: We hope that is not a trend.

Hon. Mr. Pepin: That was because 1970 was a little abnormal, being a period during which the Common Market had tremendous industrial growth and during which we experienced quite a substantial increase in export of minerals in particular.

Mr. Lane: Yes, industrial materials.

Hon. Mr. Pepin: If I may emphasize further. Recent months have been difficult, as you know. Our overseas exports are not progressing now. Those to the United States are doing relatively well, being 15 per cent higher than last year, but in overseas markets for the first four months of 1972 they are in the order of 14 per cent lower than last year. The explanation is terribly simple. It is that the industrial growth in the EEC and Japan has slowed down. The increase in the European Economic Community is approximately 2 per cent if my memory serves me well. In some countries it is even lower than last year.

In 1970 exactly the opposite situation prevailed, with the Canadian economy growing rather slowly and the economies and industrial production in particular of the EEC and Japan expanding extremely rapidly. That is why our exports increased in the order of 16 or 17 per cent and the growth of our imports was less than zero, resulting in a surplus of \$2.9 billion. It was considered to be very, very good at the time. Personally I worried about it, because the situation was abnormal. We now have another abnormal situation, but the other way around!

Senator Grosart: Just to clarify this, Mr. Chairman, may I ask the minister if I am correct in my assumption that over a longer term the situation as between our trade with the EEC and with the U.K. is roughly that, as a percentage of our total, trade with the U.K. has dropped from approximately 15 to 9 per cent, and that with the EEC has increased, but not as fast as the increase in the total market of the EEC?

Mr. Lane: Yes, that is generally correct, sir.

The Chairman: The EEC import market?

Senator Grosart: Yes, the total market.

The Chairman: Will you accept that?

Mr. Lane: In the early 1960's our exports to Britain were 17 or 18 per cent of our total exports.

Senator Grosart: I just want to get that clear.

Hon. Mr. Pepin: Essentially what you say is true. The fact that our exports to Great Britain as a percentage of our total exports is lower now than it was in 1961 makes it less painful for us to live with the U.K. entry than it would have been in 1961.

Senator Grosart: That is why we are less worried now.

Hon. Mr. Pepin: We are still worried, but in my presentation I attempted to put it into perspective. Depending partly on your humour, you will be either optimistic or pessimistic.

Senator Connolly: Mr. Pepin, as I understand the situation, the annual rate of growth in the GNP of the members of the Community collectively in the past five years has been approximately 5 per cent. The rate of growth in the American economy has been much less than that, perhaps 2½ per cent or 3 per cent. I wonder whether I am unduly optimistic when I say, without undervaluing the importance of the American market, that it seems to me that the next feasible, most promising market for Canada should be in a relatively developed economy. If the GNP of the European Community countries has been advancing, no doubt from a lower base, there should be very great opportunities for Canadian exports into that market as it develops perhaps to the level of the American economy. Is this fallacious reasoning? Is there any sense to it?

Let us take an extreme example. It is a whole lot better for us to be looking for a market for our sophisticated products in Europe than, let us say, the Far East—by that I mean India, Malaysia, Indonesia or some of the African countries, which do not have the development that one finds in Europe. So the opportunities there, I should think, would be better as we become more industrialized and as our technology and our science develop. Could you comment on that? I hope it is not an unfair kind of question. It is the kind of thing that struck me as being important for consideration.

Mr. Lane: Certainly, Europe, which takes about half of our exports to countries other than the United States, obviously offers greater possibilities for diversification of Canadian trade than any other region of the world. But it seems to me that in allocating our resources we have to do it, in effect, on a cost-benefit basis. We have to put our promotional dollars into each area in such a way as to maximize the return in each, which can mean that a certain level of activity is appropriate and worthwhile in markets of the Far East, and one might want to put more resources into European markets. But there is a fairly precise distribution of resources that one can determine on the basis of experience and possibilities open to us in the different parts of the world.

Senator Flynn: Like newsprint. It is more advantageous for us to sell it to the United States than to try to compete on the European market.

Senator Connolly: I agree. I would think that, generally speaking, the more developed economies in Europe can absorb the kind of things we are interested in exporting,

that are labour-intensive, that provide employment, that are sophisticated. Is that not so? Am I wrong?

Hon. Mr. Pepin: My view is that the export possibilities are unlimited. I have travelled a good deal in recent months, and that is the main thing that has struck me wherever I have gone. Some countries can pay for these exports more easily than others. There is unfortunately a non-equation between the need and the capacity to pay. That is a simple observation.

Canadian exporters, in general, look to the United States, and very often they stop there. When they start looking elsewhere, looking in depth, with aggressiveness and intelligence, they find all kinds of possibilities. And, of course, ça paye plus—it pays more to sell in Japan and Western Europe than in Africa and developing countries; but the job is a tougher one.

Let me take Japan—and I mention Japan because Japan is also, to the Western Europe, a very sophisticated, developed market. What we are witnessing now, with these companies coming here, and doing our job really, is that in less than a year we may have, simply because of the action of these five big corporations, an increase of—let us be a bit enthusiastic—\$100 million of Canadian exports to Japan, again just because these five companies come to spend 15 days in Canada. That to me, seemed to demonstrate that there were opportunities for exporting into Japan which for some reasons were not pursued sufficiently aggressively by Canadian exporters. The same may well apply to Western Europe.

Senator Connolly: There is no substitute for good salesmanship.

Senator Croll: I do not think that is all that is involved.

Senator Connolly: It is not all, but it is a lot.

Senator Croll: It seems to me that we have the acumen, the capability, the knowledge, technical and otherwise, but we lack the combined approach which Japan and others have. Is it a good thing, and can you sit by and permit a recurrence of what happened to us a generation ago, when the Americans came in? We are now complaining about how much they own of this country and its industry. Can we allow Japan or anyone else to walk in and become so dominant in our foreign trade? Is it not your responsibility to see that it does not happen, instead of saying, "It is happening; I don't know what to do"?

Hon. Mr. Pepin: The particular area where the Japanese corporations are helping us are especially with respect to processed and manufactured products. When it comes to raw products and semi-processed minerals, Canadian exporters usually find their way fairly easily around the world.

Senator Croll: But, Mr. Minister, the west coast is not happy about what is happening with respect to Japanese trade. I do not know too much about it, except from what I read from time to time, but I am not happy about this business of the Japanese coming in and taking over almost

completely, for instance, our coal for a while, or other aspects of it. It is not something that we can sit by and watch happen without doing something now, rather than have to answer for it in years to come.

The Chairman: I do not think there is any doubt that the minister would agree with you, Senator Croll. The distinction you have to make is the difference between the resource industry and the manufacturing industry. The illustration which the minister was giving, as I understood it, was clearly related to the export of manufactured goods.

Senator Croll: Let me remind the minister that immediately after the war I recall a man by the name of C.D. Howe, to whom I had occasion to talk at that time. I said, "When does our depression start, C.D.?" He replied, "Dave, don't worry. It is not going to start. I am going to sell to every one of those countries." I asked, "How are you going to get paid?" He said, "For some of them, we will not get paid, but in the main I will get paid in time, one way or another, no matter how long we wait." And we waited, and we got paid in the main, as you know, and we did very well. That was an initiative in the department. Are we in any different position now? I do not think we are short of any money in this country. I am satisfied that your department is not short of brains, and you have done very well; but somehow or other we have not done well enough. Why?

Hon. Mr. Pepin: Are you talking still of Japan, or generally?

Senator Croll: Generally, in the course of your remarks you made two interesting comments. You spoke about the lack of trading groups particularly, and competition. If these things are in the way, why is not something being done?

Hon. Mr. Pepin: When answering Senator Grosart I also said that the Japanese corporations know the Japanese market better than Canadian corporations could ever know it. That is one factor. The second factor is that they appear to be finding ways of importing that our people have not yet been able to use. I am choosing my words. Another advantage is that they have an international facility that we do not have.

Perhaps the best way of making this clear is to give you an example. The last time a Japanese delegation was here, one company was looking for railway steel rails. I told the representative of that company that Sydney Steel sells rails to Mexico, but selling rails is always somewhat of a problem. I asked him if he had a market for them and he said, "Yes." So I asked him how he did it, and he said, "It is fairly simple: we sell the steel rails to developing countries and in return we get coffee, bananas, or whatnot". So, again, we come to the apparent lack of that capacity in Canada, at least to the same extent as the Japanese companies have it.

Senator Connolly: Salesmanship.

Senator Grosart: Mr. Chairman, I do not understand Senator Croll's worry about our performance in export markets. We are in the position that more than half of all

the goods produced in this country are sold abroad. No other country in the world can match that. 52 per cent of our GNP was sold on foreign markets in 1970. I ask: What are we worrying about? We have the greatest record of penetration of world markets of any country in the world.

Hon. Mr. Pepin: You are quite right. But the moment we say "Why worry?", we are in trouble. We are a country of 21-1/2 million people which is so small an economic base in today's world that the British with 50 million people did not feel that they could do it alone. Obviously, we have to do marvellously. We have to be on the ball constantly. We must never accept that we have done well enough in the past.

Senator Grosart: Yes, but Senator Croll was asking why we have not done better. The fact is that we have done well. The other question, of course, is: Can we survive as one of the three or four left-overs from the blocs in the world?

Hon. Mr. Pepin: We will survive if we do better.

Senator Grosart: I doubt it. I feel we have to go with one of the blocs. I doubt that we can do it alone.

Hon. Mr. Pepin: What do you suggest?

Senator Grosart: I do not want to get into it now, but you mentioned the possibility of a mission going over in June to investigate the possibility of a bilateral series of agreements with the EEC. Well, that means getting into the bloc.

Hon. Mr. Pepin: No, not necessarily.

Senator Grosart: Yes, it does. Whether we are going into the bloc with complete access, partial access or preferential access—which is the least you can expect from a bilateral agreements—that means we are going into the bloc.

Hon. Mr. Pepin: There is a whole range of options between being a member of the EEC and having good access to it.

Senator Grosart: Yes, I realize we can be an associate member or have preferential access, but that means we are getting into the bloc, and I hope we do.

Senator Croll: Are you suggesting a fringe benefit in the EEC is better than a North American bloc?

Senator Grosart: No, I am not saying that. I want both. If you look at the literature you will find they are not mutually exclusive.

Hon. Mr. Pepin: You want to be somehow associated in a special way with the Common Market and with the United States too?

Senator Grosart: Yes. There are some Commonwealth countries, and perhaps others as well, which already have preferential access both to American markets and to the EEC.

Hon. Mr. Pepin: Do you have any in mind?

Senator Grosart: Some of the Commonwealth Caribbean countries are in that position. I do not know exactly what their most recent form of access to the EEC is, but I know they are negotiating.

The Chairman: They are associates.

Mr. Lane: They are negotiating some kind of associate status. Those negotiations have not gotten under way.

Senator Grosart: They also have preferential access to the American market, as has Canada.

Hon. Mr. Pepin: I have a question to ask Mr. Lane which might be of interest to the committee.

Mr. Lane, have the Americans done better in the western European market than Canada has?

Mr. Lane: It depends on what years you look at. From 1966 to 1970 we were doing better than the Americans.

Senator Connolly: In absolute terms?

Mr. Lane: No, sir, in the percentage increase in our sales. In 1971 our sales, as you know, turned downward somewhat. We do not have the 1971 figures for the United States, so we do not know whether they experienced the same downward trend.

Hon. Mr. Pepin: The situation between Canada and the United States on the European market is quite different in the sense that the Americans have had their multinational corporations established in western European countries. We have some, but they do not compare in number and size.

Senator Cameron: You say that in looking at the figures we can take an optimistic or pessimistic view. I relate these figures to the job situation in Canada today. Certainly we have done well in some areas, but we have not done well enough. To use the jargon of technology today, we have to innovate.

My question, Mr. Minister, is what innovations are you introducing into our salesmanship approach to expand our markets and to capitalize on those areas where Canada has special advantages? For example, we have certain products—wheat, pulp and paper, and certain minerals—in regard to which I should think we would have an advantage over other countries.

Hon. Mr. Pepin: The best way of answering that, senator, is to look at the results of the science and technology missions we have had to Belgium and Germany.

With respect to the mission to Belgium a number of technological areas of common interest were identified. Just to give you four examples: in the field of construction there is wood, houses and prefabricated buildings; in the field of energy there is electrical transmission—already there is a project being carried on between Canadian Westinghouse and the Belgian counterpart called ACEC,—and I do not know what it stands for but it is a transmission company in Belgium; in the field of metallurgy there is an exchange of information and the possibility of co-operation in the development of difficult metals—as you know, the Canadian industry is quite advanced in non-ferrous metals and there are possibilities there; and the fourth item is computers—there is co-operation in the field of data processing and information systems. Canadians are quite advanced in some areas of the computer industry.

With respect to Germany, there is co-operation moves in the area of data processing, oceanography, environmental protection and Arctic science. The proposal for co-operation in a combined operation in the Arctic relates to information on shipbuilding, cargo ice-breakers, the possibility of Canadian-German cooperation in iron ore deposits on Baffin Island in the Arctic, and that type of thing. That is just an illustration of the effects of the scientific and technological agreements leading to identification of areas of common technological interest and possible trade.

Senator Cameron: These are possibilities which you are exploring, but how are you going to translate these discoveries, if you like, into dollars and cents trade patterns? For example, to make it specific, has the Government of Canada any plan to appoint a full-time minister to the EEC to explore all potential areas of expansion in the future?

Hon. Mr. Pepin: We have a minister to the EEC Commission. The point you want to make is that he is both ambassador to Belgium and ambassador to the commission at the same time. Is that what you meant when you said a full time one?

Senator Cameron: Has he enough power and authority to really do the job that has to be done?

Hon. Mr. Pepin: Oh yes. He has a very good group. Have you not been to the Canadian mission to the commission?

Senator Cameron: Not yet. We hope to cure that oversight.

Hon. Mr. Pepin: I think you will be impressed. Many people have been.

Senator Connolly: Do you think they will be impressed with us?

Hon. Mr. Pepin: Oh, I am quite sure they will be. The question you raise is: How do you go about establishing a new trend, a new dimension, an added dimension to Canadian export to Western Europe? The only answer I can give is by multiplying the sort of thing I mentioned. They were not only projects; they were reality. For example, the Westinghouse one is being negotiated now. I talked about wooden houses, which is something that is very real.

Senator Cameron: On that point ATCO Industries has an international market. Are they involved in this Campeau deal in Paris?

Hon. Mr. Pepin: No, ATCO is not involved in this one, but is involved almost anywhere else. In Algeria, for example, ATCO is doing very well. At present the ATCO is negotiating with the Soviet Union for a similar development.

Senator Cameron: I took them out to see the plant when the parliamentary delegation was in the west. Why are they not involved? Are you giving any assistance to ATCO Industries to get into EEC?

Hon. Mr. Pepin: I think Mr. Southern will tell you that he has no better friend in the world than the Department of Industry, Trade and Commerce!

Senator Cameron: Good. It is suggested that one of the ways of getting into the European market is to establish

our own multi-national corporations. Is this realistic? Do you think we have the resources to compete on a sufficient scale with the Americans and others in the EEC, with multi-national corporations?

Hon. Mr. Pepin: I thought you would raise this question, and I have a list of Canadian companies established in Western Europe.

Senator Cameron: We would like to know.

Hon. Mr. Pepin: Let me give you some. Alcan is established in Belgium, Britain, Denmark, France, Germany, Holland, Ireland, Italy, Norway, Spain, Sweden and Switzerland; Bombardier Limited has some facilities in Austria and Sweden; Cominco in Britain, Germany, Portugal and Spain; Consolidated-Bathurst in Britain and Germany; Seagrams in Belgium, Britain, France, Germany and Italy; Inco, the International Nickel Company, in Belgium, Britain, Germany, Italy, Sweden and Switzerland. Then there are MacLean-Hunter, MacMillan Bloedel, Massey-Ferguson, Northern Electric, Northgate Exploration, Polymer, which is established in Belgium, Britain, France, Holland, Italy, Sweden and Switzerland, The Steel Company of Canada; Steinberg's is now in France; and Hiram Walker is in Europe too. These are some of the Canadian companies that are multi-national from the European point of view.

Senator Cameron: But what is being done to co-ordinate and multiply the impact of these companies? This again is where I think we must act in self-defence.

Hon. Mr. Pepin: What do you think we should do?

Senator Cameron: I am trying to find out. I am asking you.

Hon. Mr. Pepin: We give them all the informational and representational support that one can think of, or that they can ask for.

Senator Cameron: I know you are doing a lot, but it seems to me that we have to do more to get the kind of impact we need to solve our employment problems here in Canada.

Hon. Mr. Pepin: But this would not solve it. As a matter of fact, if they go and establish elsewhere in the world some people might think they are doing exactly the opposite.

Senator Cameron: It might indirectly though.

Hon. Mr. Pepin: I believe in it myself: I think multi-national corporations, for better or for worse, are here to stay. The only trouble is that we have not got enough of them in Canada.

Senator Grosart: Although the Americans are trying to bring them home.

Hon. Mr. Pepin: Some Americans are. There have been recent studies in the United States demonstrating that multi-national corporations create more employment in the United States.

Senator Grosart: There are two views. I have seen both sets of figures.

Senator Lapointe: Mr. Minister, you spoke about the unique nature of the impact on Canada. What is the difference with Australia, for example?

Hon. Mr. Pepin: They are in the same position as we are.

Senator Lapointe: So, is that unique?

Hon. Mr. Pepin: Except that their problem is a smaller one as they do not export as much manufactured products to the European continent as Canada does. Consequently they are not as hurt.

Senator Lapointe: Do you think some of them might think that in the near future the EEC, Japan and the United States will be able to provide all the manufactured goods the world needs?

Hon. Mr. Pepin: I hope not. Senator, the Canadian export of manufactured products is not in such a bad state as might be implied by your question. Way back in the early sixties, Canada had something like 12 or 14 per cent of its exports in manufactured products, but now it is up to 42 per cent; 42 per cent of Canadian exports are in manufactured products. I grant you that the automobile agreement with the United States has a lot to do with that, but even without the automobile agreement something like 20 or 25 per cent of Canadian exports is at the manufacturing stage, so we have progressed quite a lot.

The Chairman: In what time span?

Hon. Mr. Pepin: The 12 per cent was probably somewhere around 1962.

Senator Cameron: Could we have the list that you read of the Canadian companies operating in Europe inserted in the record?

Hon. Mr. Pepin: Certainly.

A SELECTED LIST OF THE LARGER CANADIAN-OWNED, CANADIAN INCORPORATED NON-FINANCIAL COMPANIES WITH INVESTMENTS IN EUROPEAN COUNTRIES

Alcan Aluminium Limited

Belgium
Britain
Denmark
France
Germany
Holland
Ireland
Italy
Norway
Spain
Sweden
Switzerland

Bombardier Limited

Austria
Sweden

Canada Packers Limited

Britain
Germany

Cominco Limited

Britain
Germany
Portugal
Spain

Consolidated-Bathurst Limited

Britain
Germany

Distillers Corporation-Seagrams Limited

Belgium
Britain
France
Germany
Italy

Domtar Limited

Britain
Italy

The International Nickel Company of Canada Limited

Belgium
Britain
Germany
Italy
Sweden
Switzerland

MacLean-Hunter Limited

Britain
France
Germany
Italy

MacMillan Bloedel Limited

Britain
Holland
Spain

Massey-Ferguson Limited

Britain
Denmark
France
Germany
Holland
Italy
Switzerland
Turkey

Northern Electric Company Limited

Greece
Turkey

Northgate Exploration Limited

Britain
Ireland
Spain

Polymer Corporation Limited

Belgium
Britain
France
Holland

Italy
Sweden
Switzerland

The Steel Company of Canada Limited

Holland
Switzerland

Steinberg's Limited

France

Hiram Walker-Gooderham and Worts Limited

Britain
France

Senator Croll: In answer to the question asked by Senator Lapointe about Australia, might I add this? Australia and New Zealand receive special treatment from Britain when they enter the EEC because of their great dependency. What special treatment or special consideration did we receive when our market was somewhat jeopardized?

Senator Flynn: None.

Hon. Mr. Pepin: Australia did not receive special treatment. New Zealand received some special treatment with respect to dairy products.

Senator Croll: Did not Australia receive special treatment?

Mr. Lane: No, senator, just New Zealand. This was because of the very high proportion of their exports that go to Britain, and because of this a special arrangement was worked out for butter. Perhaps Mr. Elliot could elaborate on that.

Mr. G. Elliott, EEC Enlargement Task Force, European Affairs Branch, Department of Industry, Trade and Commerce: The British gave certain assurances to New Zealand about the volume of their butter imports during the transitional period, and also agreed that at the end of transitional period the enlarged community would take another look at the situation respecting the dependency of New Zealand on the United Kingdom market to see whether this arrangement would need to be continued. With respect to cheese they made a similar arrangement, except that they are a bit more explicit about the fact that the arrangement would not continue beyond the end of the transitional period. They made no special arrangement at all with Australia, except that I believe quotas on one of the industrial products in their original list of twelve was of particular interest to the Australians, in the same way that wood pulp, newsprint, plywood and phosphorous were of interest to us.

Hon. Mr. Pepin: I do not think it would be fair to say that the British were not concerned about the Canadian position.

Senator Croll: I did not say that. I asked the question, and your answer is that they were concerned equally with ours, except that these were very special cases. Did not we get special treatment on pulp and paper?

Hon. Mr. Pepin: I am just referring to what they have been able to do to accommodate us to a certain extent with

respect to forest products. I think Mr. Elliot made that case.

The Chairman: It is six o'clock.

Senator Flynn: May I put a correction on the record? The minister said that four-fifths of our exports were outside of the enlarged Common Market. I would suggest it is six-sevenths, according to the 1971 figures.

Senator Connolly: Could I add a further quick question? When we were briefed for the Canada-United States meeting, which took place about two months ago, one of the officials here kept talking about Canada and the impact upon Canada of the enlarged Community in Europe. One of the officials was asked questions as to whether or not exchanges between parliamentarians in Canada and in the enlarged Community were of any value. They said, yes, that they thought developments of that kind would be

extremely important, as time went on. Then we said we had been asked in Canada—and we originally resisted the idea—to go to the Council of Europe as an observer, sending a delegation. Some two or three times this has happened. Do you think that there is any special value in parliamentarians maintaining contact with people in the Community?

Hon. Mr. Pepin: I certainly believe in that, as a general practice. For example, on the Canada-United States meeting which were held recently, the advantages were obvious. I would generalize to say that it applies to Europe as well as to the United States, very much so.

Senator Connolly: Thank you.

The Chairman: Thank you very much.

The committee adjourned.

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FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT
1972

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 4



TUESDAY, MAY 30, 1972

Third Proceedings Respecting:

Canadian Relations with the Expanded
European Communities

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Choquette	McLean
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk—(30).
Lang	

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate
Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

* * *

Extract from the Minutes of the Proceedings of the Senate,
Thursday, April 27, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, May 30, 1972.

(6)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Cameron, Carter, Croll, Fergusson, Grosart, Lafond, Laird, Lapointe, McElman, McNamara, Quart, White and Yuzyk—(15).

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Agreed—That the additional information, which has been received by the Committee from the Department of Industry, Trade and Commerce, be identified as *Exhibit "A"*, and be retained in the Committee's records.

The Committee continued its study of Canadian Relations with the expanded European Communities.

Witness:

Doctor Charles Pentland,
Political Studies Department,
Queen's University,
Kingston, Ontario.

At 5.10 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 30, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, you will recall that at our meeting last week the committee desired to have appended to the Proceedings some further material from the Department of Industry, Trade and Commerce. I have received it, but am a little concerned as to its bulk. It is rather sizable and is really not too good a printing job. I would prefer the committee to agree to have this material available to members rather than appending it to the proceedings.

Hon. Senators: Agreed.

The Chairman: Thank you very much.

Continuing our examination of the effects of EEC enlargement on Canada, the committee will hear today from an academic witness, Dr. Charles Pentland. Dr. Pentland is an Assistant Professor in the Department of Political Studies at Queen's University. Born in Montreal, with degrees from the University of British Columbia and a doctorate from the London School of Economics, Dr. Pentland has been working for some time on developments in western European political integration. His book on *International Theory and European Integration* is in the process of publication at the moment. We are very pleased to have you with us today, Dr. Pentland.

I suggest to the committee that a more satisfactory meeting results when committee members refrain from asking questions during the initial presentation of the witness. If you would kindly wait, therefore, until Dr. Pentland has finished his introductory remarks, I think the questioning could develop in a more coherent way, and we will produce a much more useful record.

Now, Dr. Pentland, we are indeed interested to hear your assessment of what Canada should do in the light of the enlargement of the EEC and, additionally, to hear any comments you might have about European studies programs in Canadian universities. Following your introductory remarks, Senator Yuzyk, an academic himself, will lead off the questioning.

Dr. Charles Pentland, Assistant Professor, Department of Political Studies, Queen's University: Thank you very much, Mr. Chairman. This committee has heard a great deal of expert economic testimony in the last three presentations which it has received. My own interest in Europe is slightly different. I look at it

from the perspective of a political scientist, and in my introductory remarks I would like to concentrate on placing the phenomenon of the EEC's enlargement in a broader and I think more accurate perspective, that of political development.

It is perhaps a mistake for us, in trying to consider what we should do with respect to European expansion, to see it simply in economic terms. It is to a great extent a political phenomenon, closely related to many other political issues which concern Europeans at this time. Therefore, I will begin by examining how it is that we have come to this present perception of Europe as primarily an economic phenomenon. (Of course, when I say "Europe," I mean the present EEC and those countries which are about to join it). After discussing how we have arrived at this perception I will go on to deal with some of the paramount political issues. I shall try to show how in their resolution Canada will be affected, and what policy we might conceivably adopt to maximize our own position with respect to Europe.

Canadian images of post-war western Europe have gone through a number of changes since 1945. For many years I think Canadians tended to look upon Europe very much as a museum. It was the source of most of our ancestors and had a magnificent, if often regrettable, past. We tended to interpret Europe through old family ties, works of literature, art, architecture and through the historical writings of Europeans themselves. These historical writings, in particular, were written from a nationalist perspective, and this influenced not only Europeans in thinking about themselves but also those who attempted to understand Europe from outside.

Our main response to Europe consisted of tourism, economic aid and defence. Europe was an old place which was to be visited, aided and defended for what often seemed to be largely sentimental reasons.

This view has changed rather radically, I would say, beginning in the late fifties and on through the 1960s. Now I think our perception of western Europe is much more in economic terms. We now think of Europeans much more as the so-called "New Europeans" referred to by writers like Anthony Sampson.

We now see Europeans much more in the North American mould, as consumers, businessmen and technocrats, highly mobile people crossing boundaries without much concern for political symbols, and doing away with the dead hand of Europe's past.

We have very quickly accepted this new notion of Europe in our media and in our policy-thinking. Perhaps this is best symbolized by the persistence of our newspapers in referring to the EEC by its unofficial title of the ECM, the European Common Market, as if the market were the only thing that really mattered about European integration.

The Canadian response to this image of Europe has been to think purely commercial terms about competing for a market, developing new trade strategies to take account of this growing centre of power. Very clearly this has been the concern of this committee up to now.

What I am going to try to suggest today is that it is important to look at the bigger picture, to look at Europe as an emergent political system—in a sense as a political system already.

There has not been a great deal of Canadian interest in this phenomenon, except perhaps, for what it might tell us about the integration of our own country, or about the possible integration of North America by economic means. We have acknowledged this apparent parallel between western Europe and ourselves, but we have not had much of an interest in European integration as a political process for its own sake.

This is, I think, reflected in the present nature of European studies in Canadian universities. There are many courses in economics departments where one can find discussions of the Common Market, as a phenomenon of international economics, usually in the context of a course on international trade theories; but one rarely finds courses on the political aspects of western Europe as a whole. In fact, as I think Peter Dobell pointed out in his article in the *International Journal*, there is only one centre of European studies in the whole of Canada that is focused on the political aspects of the Common Market. That is at l'Université de Montréal. Yet it is my feeling that this political aspect of Europe is the most crucial one with which we are confronted in dealing with the problem of expansion. If we are to develop a rational, intelligent response to the EEC, we must consider expansion in the context of political developments in Europe.

I would like to look at what I think are the three main political issues in the emergent Europe: first, the question of supranationality; that is, the development of further political integration in Europe; secondly, the issue of structural change within Europe; the evolution of the EEC's institutions, and, thirdly, the question of Europe's place in the international system.

Before I begin, perhaps I should explain what I mean by "political" issues. I say that enlargement is part of a complex of political issues that are now engaging western Europeans. What I mean by a political issue is, basically, that it is a controversy, a debate about the future of the European political order—as distinct from Europe's economic prosperity or cultural development. That is, these are issues which concern the way rules will be made and enforced in the Community in the future, the distribution of political power within the Community, the adequacy of the institutions of the Community in solving its problems and in responding to public needs, and the way in which the Community will distinguish itself as a political entity from other entities in the international system. This is what I mean by purely political issues.

In the past, as I have indicated, these purely political issues have been largely overshadowed by spectacular events on the economic stage. I think it is still correct to apply to the EEC the expression which was so long applied to West Germany, that it is an economic giant and a political dwarf. More accurately, perhaps it might be said that the EEC is a political infant, in the sense that it has considerable prospects of growing into a giant, and that the political

issues are starting to reflect this by the intensity with which they are discussed in Europe.

Another reason that Europeans are beginning to be confronted directly with political issues is simply that they have reached the limits of what is solvable by purely technical processes. That is, they have run out of relatively easy, less controversial issues with which to grapple. The EEC treaty set out a very specific program on integration in the economic sphere for 15 years ahead, laying down a series of deadlines at which certain barriers had to be removed, certain alignments made in external tariffs, and certain common policies formed. These were very specific tasks which it was possible to solve by a mixture of technical expertise and market-place bargaining.

Now the Europeans are up against what analysts have referred to as "high politics": issues of sovereignty, and of external policy. They must face these without the support of a treaty which lays down specific commitments in advance.

It is in this general political perspective that we have to see the enlargement of the EEC. I would now like to turn to the major issues that I suggested earlier, and show first of all how they are all related to the enlargement issue that is the concern of this committee; and, secondly, to point to their possible implications for Canada in the near future.

The first issue is that of further political integration within Europe, the issue which revolves around the possibility of Europe's becoming a supranational federation, a new state in international politics, abolishing or severely limiting the freedom of activity of its components parts.

Now, views in Europe, and indeed elsewhere, differ considerably about the likelihood of this federation actually emerging in the foreseeable future, as well as about its desirability. It should perhaps be pointed out that, contrary to some widespread views, there is no specific reference in the Treaty of Rome to political integration as a goal of the treaty's signatories. The closest that the treaty comes to a statement of this sort is in the preamble, where it uses the phrase, "establish the foundations of an ever closer union among the European peoples"—which you will recognize could mean almost anything. It is this phrase which was seized upon by those who were in favour of a European federation, to try to suggest that the whole point of the Common Market was the eventual abolition of national sovereignty and the emergence of a federal state. But there are many others who would take that phrase to mean simply that European nations as sovereign states should work more closely through traditional international techniques of co-operation.

It is fair to say, then, that if any consensus has existed at all on the desirability of Europe's becoming politically united it has been at a very general level which says nothing about the specifics of that eventual political form. It is now, I think, accurate to say that the views of those who dominated the early EEC, particularly the first Commission headed by Walter Hallstein, and some of the representatives of the smaller members of the Community—the views, which favoured supranationality, have now receded into the background. They have been, in a sense, pushed aside by the view that supranationality is both unlikely and probably undesirable.

What we are seeing at the moment is by all accounts a resurgence of the national actors in the EEC. There is a growing belief that, contrary to the early assumption, economic integration does not automatically and inevitably lead to political integration. Our last foreign policy white paper which, as I recall, makes a very strong suggestion that this process is inevitable, would perhaps be questioned by many Europeans.

Thus the belief that political integration is an inevitable process has gone by the board and the belief that it is desirable is now held, I think, by a minority of those who are influential in the Community. Therefore, what we are likely to be confronted with in the European Community in the foreseeable future is a mixed political system which is neither a conventional grouping of states making their decisions by normal international means nor a new single state, but a mixture of the two, something which is very much a new political animal. This is going to be a very messy and difficult political system for us to try to comprehend from the outside; it is difficult enough to comprehend for those on the inside. But, as anyone who has been in political life for a long time will recognize, messy arrangements have a disturbing habit of persisting and becoming institutions. I suspect we might have to accept a mixed political system in Western Europe for some time.

The effect of enlargement on this process, the decline of the supranational idea, has been very much to reinforce it. First of all, the major state which joined the Community in the enlargement, Great Britain, has never been one which has favoured further political integration or supranationality in Europe. The British idea of European integration was always one which bore very close resemblance to General de Gaulle's notion of a Europe of states making decisions by traditional international means, and certainly the French will have a valuable partner in the British in preventing increases of centralized power in Europe. Clearly this was the basis of the bargain which was struck between President Pompidou and Prime Minister Heath in May of 1971, which permitted the surging ahead of Britain's advance into the European Community. The other feature of enlargement that will further hinder integration is simply that there are a lot more states in Europe now and the decision-making process is likely to become more cumbersome, making it more difficult to arrive at the kind of consensus among the member states on which integration has been built in the past.

The implications for Canada, I think, are fairly clear. To deal with this mixed political system we are going to have to use a combination of techniques: dealing with the states individually and trying at the same time to build up a set of strong new links with Brussels and, perhaps, also with other centres of power in Europe. It should be pointed out that Brussels is by no means the uncontested institutional centre of the new Europe. There are institutions of the EEC in Strasbourg and Luxembourg and, perhaps there will be in Paris, if the French get their way and a political secretariat is formed in the near future. In any case we are not going to be able to deal with our trading partners in the traditional way; we are going to have to set up a whole array of new lines of communication with this rather shapeless community.

As to the issue of structural change, or the development of European institutions, I think there are two aspects which are worth considering: democratization and the problem of structural reform or streamlining. The issue of democratizing the European Com-

munity has been allowed to languish for some time. It has really only become important in the late sixties.

There are different views among Europeans as to what democratizing the Community means. For some it means giving the European Parliament control over the Community's budget, which it does not now have, and electing this Parliament rather than appointing it from national Parliaments. Since 1960 there has been a report on the table as to how this Parliament should be elected. It envisages fairly large constituencies electing 426 M.P.'s from all across the Community. Other proposals for democratizing Europe have been to exert more control over the executive Commission, either by electing the president of the Commission and having him pick the cabinet in the American style, or by having it selected out of the Parliament. The belief generally is that this Community is too important to be left to the technocrats and it must be under more direct control by the general public in Europe than it now is.

It is perhaps worth pointing out that it has now been agreed that over a period of seven years the Parliament will, in fact, obtain control of some of the Community's resources and some of its budget. This is being done by a two-phase process: Until 1974 the Parliament will be able to make certain amendments to the draft budget; after 1974 it will have under its control all expenditure not covered by existing financial negotiations or in the province of other Community bodies, as well as real influence on the administrative budget. However, this is still a very miniscule part of the Community's total budget; the 90 per cent of the budget which goes to the Agricultural Fund and to the Social Fund will remain outside the purview of Parliament for the foreseeable future, so that this is not as important a development as some European federalists like to think. Enlargement, I think, will also reduce the prospects for a rapid democratization of the Community. Once again, the British are singularly cautious about giving too much control to a supranational European Parliament.

If democratization does come about it will have the effect of changing the institutional balance in Europe quite dramatically. In the first phase of the Community, which ran up to about 1965, it was clear that the Commission was the leading edge of integration in Europe, taking the initiative in proposing policies to the Council, which the Council could then either act upon or simply return to the Commission for further action. In the second phase, which is really post-1965, the Council of Ministers, the intergovernmental forum, has really been the dominant body in the EEC. It is clear now that this intergovernmental decision-making model will be the one that marks Europe for some time yet.

If the EEC were democratized it would perhaps enter a third phase, which would possibly mean more checks and balances on Europe's decision making, and therefore perhaps also greater indecision, a greater inability to formulate quickly and intelligently common postures vis-à-vis the outside world. I am not sure that this is necessarily to our advantage. It is sometimes easier for a country to deal with a decisive adversary or bargaining partner than to deal with a vacillating and amorphous entity such as a democratic EEC might end up being. However, I repeat that this is not likely for a while in any case.

The other aspect of structural change and development that I should refer to is the rationalization of institutions within the EEC.

In a real sense, Europe is now over-organized in many ways. It consists of a proliferation of overlapping structures, very often with ill-defined functions. I could give you some figures on the growth of the European bureaucracy, which I think now numbers something like 6,000 people, which is about double what it was 10 years ago, the administrative budget having tripled in the same period. Naturally the enlargement of the Community will exacerbate this whole trend towards unchecked growth.

The Council of Ministers, which used to be able to make some of its decisions by a relatively simple 12 out of 17 qualified majority, will have to undergo horrendous computations, trying to make decisions on the basis of 43 out of 61 weighted votes, when the Community is enlarged to 10 members next year. The Economic and Social Committee will be increased from 101 to 153 members. The Commission itself in February, 1973 will increase from 9 to 14, to account for the new members. The Parliament also will increase from 142 to 208.

The general increase of membership in every body of the European Community, as well as the further proliferation of their ministerial departments, or directorates general (now numbering 18) and of committees, means that the decision-making process in the Community will become increasingly slow. It will become less and less easy for countries dealing with the Community to get a quick answer out of the Community and to know where to apply pressure most successfully in order to get it to make the decisions that might be desirable.

The third political problem with which Europeans are grappling is that of the Community's political identity within the international system. This again has two aspects: the first is membership, the aspect of future enlargement; the second concerns the form and the substance of the relations that this new entity will have with the rest of the world. Enlargement is only partly as a result of the economic logic of integration. To a great degree, like every other major growth of the Community, enlargement has required a prior political consensus and a sense of political necessity among the members. General de Gaulle's major lesson to all of us was that economic processes by themselves, and economic logic by itself, have distinct limitations. Those of us who believe that the growth and expansion of the Community are irresistible processes, would do well to look back a few years to General de Gaulle's career as a European.

The Europeans are continually in the process of making up their minds about which states might be acceptable in the Community and which states are not, and what the future European political system will look like on the map. If we look around the European continent we see very few potential members for the future. At the moment there are only two countries in Europe that have association agreements with the EEC which are intended to lead to membership. One of these is Greece, whose association has been suspended since 1967. The other is Turkey, whose possible membership is mooted sometime in the 1980s. Other countries have been considered as possible future full members of the EEC, among them Spain and Portugal, both of which, like Greece, really require changes of regime or of political thinking within Europe before they are acceptable. Then there are the European neutrals, including Sweden, Finland, Austria, Switzerland and possibly Yugoslavia,

although this last seems rather unlikely. However, at the moment the prospects of any of the neutrals becoming full members of the EEC are rather remote, for obvious reasons.

Since full membership of the EEC is limited, by Article 237 of the Rome Treaty, to countries that are in Europe, and since those countries themselves are scarce if one eliminates eastern Europe from consideration, then clearly there are severe limitations on the future growth of the EEC as an entity.

The problem then really becomes how a Community of ten, perhaps a few more, might set up its relationships with the rest of the world. At the moment the major formal relationships are structured through association agreements with Third World countries. Where the EEC has most institutionalized its foreign relationships is in the councils of association that have been set up to regulate its economic exchanges with the countries of the Yaoundé Arusha Agreements. In both cases these African countries and the EEC have set up joint councils, which consist of the membership of the EEC, the membership of the African group, and representatives from the European Commission, to make policy in the context of this associated relationship. There are also joint Parliamentary Committees.

It is worth adding that as of January, 1971 the European Community has abolished all duties on imports from less developed countries, except for some agricultural products. The institutions thus reflect, and have in turn produced, close, complex and durable economic ties.

As far as its relationships with other trading partners are concerned, there is far less institutionalization. There are some trade agreements between the EEC and countries such as Israel; there are limited association agreements with the countries of North Africa; but as far as we are concerned, as well as the United States and Japan, there are no institutions of this kind and our trade is very much on an informal basis. I say "informal"; I mean simply that there are no organizations set up at present, no planned relationships among governments.

It is clear from the statistics of recent years, however, that the volume of trade between the EEC and all three of these major units—Japan, the United States and ourselves—is increasing dramatically. We are thus left in a problematic position, rather unclear as to how the future of the international trading system will develop.

We might interpret the growing trade flows between the developed countries as an indication that the fears about competing trade blocks—which have been so widely voiced in the last few years—are groundless; that we are going to see more and more trade between the developed countries and a greater degree of economic cohesion among them. It is worth pointing out that this particular scenario depends very much—at least, in my view—on persistent, steady economic growth in the already developed areas of the world. If growth begins to slow in Europe, Japan and the United States, as it seems to be doing, there will be increasing pressure on the decision makers in those countries to adopt more restrictive practices, more protectionist policies, than they already have adopted.

I am not myself very concerned about current protectionism in the EEC. I do not think it is the important thing that has prevented us from doing the trade we want to do with Europe. As has been pointed out in many publications, the EEC's general level of tariffs is the lowest of any major trading country or group in the world. After the last Kennedy Round of cuts of this year, I think it is something in the order of 7½ per cent on the average. That is 2 to 3 per cent lower than America or Japan. So the problem is not one of the present but conceivably one of the future. If economic conditions become tougher in Europe, then we may begin to be confronted with a more protectionist kind of EEC. It will be then that the economic equivalent of the conflict of continents that George Orwell talks about in "1984" might well become more of a possibility.

The implications of this for Canadian strategy are that we should look very closely at how we might align ourselves economically with this European group. There is, of course, the option of joining in a North American market, or perhaps the Connally variant of it. Ex-Secretary Connally of the United States at one time proposed a common market of those left out of the EEC—the United States, ourselves, Japan, Australia and New Zealand. This or a North American common market, would seem to me to be something which we ought to try to avoid at the present time.

The multilateral option, which appears to be the favourite of the government at this point, seems to me to be remarkable for the lack of specificity which it embodies. It seems to be merely a question of more of the same kind of policy which we are following already—with perhaps more enthusiasm, more vigour and more intelligence, but in a world which has become considerably different. We ought, then, instead to look very seriously at how we might become more closely integrated with this emergent European political system.

The Chairman: Thank you very much for your very wide-ranging discussion of this economic giant and political infant—was that the phrase you used?

Senator Yuzyk, would you be good enough to lead the questioning?

Senator Yuzyk: First of all, professor, we are very grateful to you for giving us this background and this information on the present situation in Europe. This has helped us in some ways to clarify our relations with the EEC, in that you have stated very clearly that the EEC is an evolving system, based on economic considerations paramently; and, because of these economic considerations, the political factors naturally follow.

Our interest in dealing with the EEC is to find out with whom we should be working, who is the real spokesman for the EEC, particularly as the situation stands at the present time. You did mention that there is a Council of Ministers and also the Commission. Apparently the Commission, from your account, has been much more active and decisive than the Council of Ministers.

Since we are aware of what the Commission has been doing so far, and less aware of what the Council of Ministers has been doing, would you be good enough to explain, first of all, the relationship between these two, and how we should approach the EEC in dealing

with it? Should we use both bodies here, or should we still rely paramently on our individual approach, continuing to deal with individual members, as we have been doing so far? Should we continue along these lines, keeping in mind the possibilities in the future? The question I have asked is rather involved, but the whole European system is very involved.

Dr. Pentland: Yes, it is very involved.

It is difficult to know who the spokesman is for the EEC at the moment. In discussing the role of the Commission I tried to make the point that the Commission is very much on the decline at the moment as a political force. Its zenith came, I think, in the early sixties, particularly when it represented the interests of the Community in the Kennedy Round negotiations. It acted as the single negotiator then, you will recall. But since 1965 the Commission has been steadily on the wane. As you know, 1965 was the crisis brought about by the attempt of the Commission to try to make a leap forward in its powers vis-à-vis the national governments by appropriating to itself control of some of the financial resources of the Community. This led the French to boycott the Community for a year. Since then the Commission has really moved away from being a political body taking political initiatives towards being a body which is more a secretariat for a Community which makes its decisions by intergovernmental bargaining. So I would argue that the Council of Ministers has become a much more important entity since that time.

There are limits on this, because within the treaty it is very clearly spelled out that the Council of Ministers and the Commission have quite separate resources and roles. The Commission is the body which has the sole right of initiative in policy making. It is the body which proposes policy, researches it and then carries it out afterwards, when the Council of Ministers has made its decisions. The Council of Ministers, of course, disposes of policy proposals. It has the final say. Moreover, this situation cannot really change so long as the Treaty of Rome is in existence.

What is happening is that there is a challenge by many national governments, particularly by the French, to move outside the context of the treaty in many areas of policy-making.

I mentioned the political secretariat. The notion here is that there would be a body of experts based in Paris who would formulate policy for the Community, particularly common foreign policy, to be made on an inter-governmental basis—not on a supranational basis—and this policy in a sense would become the policy of the Community because the member states would simply adopt it and act as if it were. But it would not be made through existing Community channels as such.

What I am saying is that we are probably best off in looking at the Community as, primarily, a collection of national governments which make their decisions by formal inter-governmental bargaining, and, secondarily, as a community with a central authority which, for some purposes, when it is convenient to the national governments, will be allowed to represent the members. But foremost I think we are going to have to deal with the Council of Ministers and the separate national governments.

Does that answer your question, senator?

Senator Yuzyk: Yes, I think it does, except that there is the other aspect that we have our relations with these countries individually and we will have to continue those relations, I suppose, until we get some kind of recognition. So far I am not sure whether the Council of Ministers has ever taken Canada into consideration. Has it?

Dr. Pentland: It does not seem to have. I cannot find many references to us. In fact, the other day I was reading what purports to be one of the major political and sociological studies of Europe. To begin with, I thumbed through the index, but found no reference to Canada whatsoever. I think that is quite typical of the outlook of the EEC towards us at the moment. We have not made much of an impact on them. I am not sure it is entirely their fault.

Senator Yuzyk: Have we tried?

Dr. Pentland: I do not think so.

Senator Yuzyk: I do not think we have tried very hard to make any impression on the EEC, except in terms of trading and commerce.

Dr. Pentland: I would agree.

Senator Grosart: Mr. Sharp would not.

Senator Yuzyk: Do you think, therefore, that our chances would be a little better through the United Kingdom to make our voice heard at least?

Dr. Pentland: That is a difficult one! It conjures up President de Gaulle's notion of Britain as the Trojan Horse for the United States. Maybe we are going to clamber in there with the Americans.

Senator Grosart: It conjures up Mackenzie King, too.

Senator Yuzyk: Dr. Pentland, with respect to Canadian studies on the EEC, you mentioned that there was one centre in Montreal. Is that the only centre in Canada?

Dr. Pentland: To my knowledge that is the only centre which deals with European integration as a political phenomenon. There are centres for international studies which do deal with some aspects of it, according to the interests of those who are there, but this is the only one that I know of which has the EEC as its primary focus.

Senator Yuzyk: Considering that the roots of most Canadians are to be found in Europe, why is it that in other parts of Canada, particularly the eastern part of Canada, for example, in Toronto, there is not such a close interest in the EEC when it is so obvious that we do want to increase our trade with this Community?

Dr. Pentland: I cannot speak too much about the economists here. Perhaps they have been more active than we have in looking at the EEC, but the political scientists, you are absolutely right, have not been particularly active. I think it has to do with two tendencies that have overlapped in Canada. On the one hand we have been

involved in Europe since 1945 as I said, very much from the point of view that, for partly sentimental and partly hard-headed political reasons, Europe was to be defended and given economic support. For one reason or another we were interested in Europe in that way.

Senator Yuzyk: You explained that very well in your opening remarks.

Dr. Pentland: This I think has been a declining interest in Canada since the late 1950s. On the other hand, our emerging interest has been in other areas of the world. We have become interested in Latin America and Africa particularly. So at about the time we were starting to develop international studies in Canada Europe was declining as an area of interest and it did not seem important to set up centres to study it. We had tired of it. That is the only explanation that I can arrive at. Then, when we did become aware of Europe again, it was foremost as an economic entity. So it was primarily the economists who became interested.

Senator Yuzyk: But we have been teaching European history in all the universities, even modern history, right up to the present day. Do you think these studies should be encouraged in some particular way?

Dr. Pentland: Yes, I think so.

Senator Croll: Was it the fault of the pupil or of the professor?

Senator Yuzyk: That is what we are wondering now.

The Chairman: You are going to get a biased answer here!

Dr. Pentland: I think you might.

Senator Yuzyk: Is the EEC not one of the largest trading blocs in the world now?

Dr. Pentland: It is the largest, actually.

Senator Yuzyk: Then Canadians had better pay attention to this.

Dr. Pentland: I should have thought so, but not simply as an economic phenomenon. This is what I am pointing out. It also has political potential. I would certainly argue that we have been extremely negligent in our academic community in looking at this political system. I can think of about half a dozen political scientists in Canada who are interested, more or less full time, in the EEC. That is a pretty small number.

Senator Yuzyk: How are these studies set up? Do the universities themselves take the initiative, or should the government fund some of these studies?

Dr. Pentland: I think that the universities have to take the initiative at the outset. Government can do all the funding it likes, but I think unless there is a basic interest in the universities and unless the idea spreads of its own accord, it is not going to get anywhere. I do not know if I am now cutting off some large

potential flow from the public purse, but I think it is incumbent on us to get going on this subject before the government should feel in any way obliged to do much about it.

Senator Lapointe: Do you think it is an exaggeration to say, as the past president of the Council of Europe said, that if the EEC does not give itself some political institutions pretty soon it will become a kind of defenceless giant, a kind of monster that just could not survive?

Dr. Pentland: Walter Hallstein used to say, and others with him, that European integration was a kind of bicycle—once it stopped rolling it would collapse. This argument had a very clear purpose to it; one had to keep the dynamism going and one had to keep the political commitment of the member states or else things would degenerate. But I am sure that Europe could survive as a viable economic entity without a great deal of political apparatus. I think it is well equipped at the moment to look after itself. Perhaps one area where it needs further development is in the formation of a common commercial policy. It has had a common external tariff since 1968, but it has not developed its own institutions to formulate and carry out a commercial policy vis-à-vis other states. But this is a fairly limited aspect of the total development of Europe, and it does not require a European parliament nor does it require more power for the Commission because the tools are there in the existing framework if the Europeans wish to use them. I think perhaps it would be overdramatizing to say that the EEC needs more than that to survive.

Senator Grosart: Dr. Pentland, I got the impression that you might be polarizing economics and politics rather more than would be realistic. Surely, in between there is an area caused by an overlapping, a very large area that ties them together? The Council of Europe is a very good example in as much as it deals with patents, migrant workers, aviation, national parks, criminal law, et cetera. They have committees on all of these things which are as much political as they are economic. Is this polarization realistic?

Perhaps I can make the question more specific. Do you not think it is possible that the co-operation in these other areas—including pollution, science and technology and so on—will bring about a degree of political cohesion without actually leading to political integration?

Dr. Pentland: It is possible, and I think we should recognize this as one important theory about how integration will develop. One of the problems is that we believed this too uncritically in the past; because we were able to co-operate in areas such as the ones you mention, which have a very high technical component, or in areas where most people agree that something needs to be done—pollution, for example—we believed that political union would come automatically.

Senator Grosart: But is that not the essence of political union, that people agree that something needs to be done about a particular problem?

Dr. Pentland: I agree, but the difficulty is getting people to agree on major political questions. It is easy to get people to agree on

technical matters, but it is not so easy to get them to agree on questions concerning, for example, foreign policy or defence, where for one reason or another it is believed that the stakes are extremely high: physical survival or sovereignty or things that people believe in fundamentally. That is the sort of distinction that I would draw between politics and economics. I would certainly grant you that they overlap and that anything can become political when people disagree about it. I think that is fairly evident. But I do not think that there is any real evidence yet to show that a lot of co-operation on the type of committee that you mentioned leads inevitably to political integration. It may aid it, and indeed in the long run it may produce it, but we have not seen that happen yet.

Senator Grosart: But would you not say it is a degree of political integration? It is not a question of leading to eventual total integration. Even in Canada we do not have that yet, but we have a state and we have a division of powers. Is this what is going to happen there, and are we going to have a United States of Europe? I am speaking now of a situation where you will have central powers in these agreed areas and residual powers with the states. Do you see that kind of development coming about?

Dr. Pentland: I do not see this happening for a long time. Mind you, in one sense we have a system of that type right now. Certainly agricultural policy is made at the European level, and as you know there is a customs union, and there are a great many other forms of policy which are made at that level. But they are not made exclusively by central institutions without consultation with or consideration of national viewpoints. My definition of a single political community is one where this is at least possible in theory, but it is not even possible in theory in the Community at the moment. Studies which have been made of the Community, looking at all areas of decision-making, show that in no area is policy made solely by community institutions acting on their own, which would be the case in a centralized state or even a federal state with some centralized powers. There is no area of policy like that. Most policy is still made by national governments with perhaps some input from Brussels, or occasionally, as in the case of agriculture, mostly in Brussels with some input from national capitals.

Senator Grosart: Surely, the common tariff is a supranational policy of the Community? Perhaps you are a little pessimistic. Canada does not have agreement in this area and yet we have a nation, we have a political entity. We do have agreement in other areas. Is it not possible that you are a little pessimistic about political integration?

Dr. Pentland: Well, it is possible, by my definition. My definition is perhaps more demanding than yours or others' might be. Professor Hallstein, the first president of the Commission, used to argue that Europe was integrated already, that it was a federation. This was in the early 1960s. He said this precisely for the reasons you have mentioned, namely, that it was making policies in certain areas.

The Chairman: I find Senator Grosart's point very interesting. What can change your pessimism?

Senator Grosart: The European flag.

Dr. Pentland: I would have to see some evidence that the major states which are now members of the Community were committed to supranationality. I do not see this in any of the policies of the major states at the moment. I do not see it in the French policy—that is very evident; or the British policy; the Germans are somewhat more ambivalent because Chancellor Brandt talked about political co-operation, meaning, I think, what the French mean, that the major powers will have to get together and create common defence and foreign policies. However, this is not supranationality. No single government will allow itself to be over-ruled by another government. Until you have governments who are willing to make this commitment and allow themselves to be over-ruled on certain issues, providing this situation does not last forever, then you have to be pessimistic.

Senator Grosart: You will never get that commitment. If this was a necessary requirement in the establishment of a political state, you would have no United States, Canada, United Kingdom, Germany, or Italy. What would you have? Existing entities have made no pre-agreement saying they would now become a supranational state. It merely comes about.

Dr. Pentland: Perhaps I should not have stated it that way. I did not mean they would make an open, prior commitment. However, they should at least indicate they are willing to give more power to the central authority, and the implication in giving that power is that they recognize that at some point they might well be over-ruled by that authority. I did not mean they would have to make an open, verbal commitment. But, they should be willing to give more central power to the Community.

Senator Grosart: It sounds a little like federal-provincial conferences.

Dr. Pentland: Yes, there are many parallels.

Senator Grosart: You spoke about certain countries, Greece, for example, whose membership is suspended, and Spain and Portugal who, under certain conditions, may come into the EEC. Are there membership qualifications, in terms of parliamentary democracy, in the EEC as there are in the Council of Europe, for example?

Dr. Pentland: There are, yes.

Senator Grosart: Is it in the treaty? It has been so long since I have read the treaty.

Dr. Pentland: No, it is not in the treaty, but the rule exists in practice. It has arisen in a number of cases, the most obvious ones being Greece, Portugal and Spain, where small members such as the Dutch, as well as parties to the left, have been most vociferous against accepting regimes of this sort. It is more a question of political atmosphere than a legal position.

The other issue like this which has arisen, of course, is Communist Party representation in the European Parliament. Up until 1969 there were no Communist Party representatives in the

European Parliament. Now, the Italian Communist Party is represented as part of the Italian delegation. The French Party is not.

Senator Yuzyk: Who makes the decision regarding the parties, is it the state itself?

Dr. Pentland: Yes, the national Parliaments decide what kind of delegation they will send.

Senator Grosart: Mr. Chairman, could we obtain a list of the Yaoundé and Arusha countries?

The Chairman: Senator Grosart, it is in the article.

Senator Grosart: Are all of the countries listed?

Senator Yuzyk: Yes, they are all listed, as well as who obtains the Common Market preferences.

Senator Grosart: That is fine. You have used the phrase "democratization". Do you use this in the sense of parliamentary democracy? Surely these countries regard themselves as democratic already?

Dr. Pentland: They regard themselves as democratic, but there are many who regard the Community as undemocratic. The decisions of the Community are not subject to the normal controls which we would expect to find in national government decisions.

Senator Grosart: In other words, it is "one man, one vote" throughout the Community.

Dr. Pentland: Yes, this is one aspect. The other aspect is that the parliament would have budgetary control, which it does not enjoy now. All it has is a titular right to throw out the Commission, and the Parliament would never do this because the right of re-appointment lies with the national governments.

Senator Grosart: You have democratic states which are grouped together in an undemocratic Community, is that what you are saying?

Dr. Pentland: I think you could place that interpretation on it, yes.

Senator Grosart: Do you see any indication that the EEC pattern is exciting enough interest whereby analogous bodies might develop along these lines—specifically, an Asian economic community? Do you see any evidence of this?

Dr. Pentland: Well, of course, it has had some effect already. It is very clear that the Latin American Free Trade area, the Central American Common Market and a number of economic communities in Africa have been set up along the pattern of the EEC. They have taken their inspiration from Europe. Asia is, perhaps, the least active area so far, perhaps because of its size and diversity and the kinds of conflicts and power rivalries which exist. What is most striking is the lack of success of the common markets which have arisen in

imitation of the EEC, with the possible exception of the Central American Common Market which seems to be making a go of it, at least in terms of stimulating trade between member states. The Latin American Free Trade area is wobbly, and the various African markets are in much the same condition. They go from crisis to crisis, and there does not seem to be any growth inherent in them. Common markets are likely to be much more successful in highly developed economic areas, post-industrial societies where people are mobile and there is a great deal of indigenous capital available.

Senator Grosart: Canada-U.S.

Dr. Pentland: And Canada-U.S., unfortunately, is a good example.

The Chairman: Even if I interpret your pessimism incorrectly, I think you have made the case that the state of union of Europe may be at its peak to day and it will only fragment in the future. Is that a correct statement?

Dr. Pentland: I would not wish to put it that strongly. I am trying to argue that the present situation, which is an anomaly in terms of our political theories, might well turn out to be permanent. That is the point.

It is difficult for us to grasp a collectivity which is neither an international system in the traditional sense nor a state. The EEC is something in between, it seems to me, when considered by a number of criteria. We must start analyzing and accepting it as such, because it may well persist. Therefore, I do not think that the tendency to fragmentation is very great at all. I cannot see that it would be in the interests of any major member of the Community to leave that Community in the future. The economic benefits so far have been too great. Even France, after all, which many thought would be breaking up the Community during the mid-sixties, did not and, in fact, is one of the most highly committed states to the economic arrangements of the Community. Therefore in my opinion it has a fair degree of stability.

Senator Carter: Did I understand you to say earlier that you would not favour a North American common market?

Dr. Pentland: That is correct.

Senator Carter: Could you elaborate on that?

Dr. Pentland: I should begin by saying that this is a terrible dilemma for any Canadian who favours European integration. Here we are in Canada telling the Europeans to get together and when a similar possibility confronts us we say we do not wish to accept it.

I defend this by saying that there is a significant difference between a Community of six, or soon ten states of roughly equal economic and political power, and a system of the elephant and the mouse. There are obvious disparities, of course, between Germany and Luxembourg, but Luxembourg can overcome that by aligning itself with France, Italy or some other major state at a given time. In other words there are possibilities for a small state in a system of six or ten states which simply do not exist when 22 million Canadians are locked in a closet with 200 million Americans.

Senator Carter: The basic reason is that we are afraid of the Americans.

Dr. Pentland: Of being simply swallowed up by a massive economic power which knows and cares little about us.

Senator Carter: I think you said that the future of the enlarged European Economic Community would depend largely on economic growth. If the economic growth continues to a fair degree it could get along internationally as far as trade is concerned and there would be little risk of restrictions and protective measures.

Dr. Pentland: Yes.

Senator Carter: Do you foresee in the future that heavily industrialized countries in Europe, as in North America, including Canada, will have to restrict economic growth to safeguard the environment and relieve the strain on national resources? Will we have to restrain our standard of living somewhat in order to enable us to divert resources to the development of the third world?

Dr. Pentland: I think that would be a very desirable development. As to whether it will happen is another question. I am not sure that I am qualified to speculate in that regard. There may well be increased pressures on national governments to adopt such a position.

Senator Carter: Are the pressures not already there with the growing scarcity of resources for industrial expansion and the damage caused to the environment and the ecology?

Dr. Pentland: Well, of course, those pressures have two directions. One is toward the limitation of growth within the country. The other is to look outside the country for new sources of resources. The American interest in our resources is clearly a reflection of that.

However, I also think that the European Economic Community has become more outward-looking, partly because it is becoming aware that these resources are available in the developing world. Oil from the Middle East is an example.

Senator Carter: That is another point. I had forgotten that there is a scarcity of energy which will affect Europe in the same way as any other industrial nation.

Dr. Pentland: Very much so.

Senator Carter: Is that not a pressure with respect to resources which will only be deferred on a word scale for ten or twelve years?

Dr. Pentland: Yes.

Senator Carter: So that, eventually, taking a long look at it over a period of 20 years, is it not reasonable to assume that all these industrial nations will need to curb their industrial growth?

Dr. Pentland: Yes, I think that is a reasonable prognosis. My concern with regard to this process arises from the evidence at the

moment that the European Community is poorly equipped to deal with the types of political and social problems which will emerge in an era of no or slow growth.

Senator Carter: What will be the result of the tensions and strains which will develop when these pressures come to bear in that type of an in-between sort of structure, which is neither international nor a sovereign state?

Dr. Pentland: This may well lead to more emphasis on a common European social policy. There has been some development in this direction already, largely as a result of the Coal and Steel Community, which has as one of its effects the elimination of some of the less efficient coal mines in Europe. A European social policy has to be formed to help alleviate the condition of the workers who were thrown out of work by European industrial policies.

This kind of thing is likely to become the pattern for the future. I am not sure that the Europeans have paid sufficient attention to this possibility. You are quite right. There will be increased stress on existing institutions in Europe. Perhaps this will be an incentive for increased integration.

Many people however, are worried that it will make the EEC more in-turning and lead it to a "Europe first" policy which could have as one of its effects the exacerbation of some of our trade problems with it.

Senator Carter: Yes, it would lead to more troubles for nations such as Canada.

Dr. Pentland: Yes.

Senator Carter: What do you foresee with respect to the eastern European countries, such as Russia and the Balkan states?

Dr. Pentland: Do you mean in relation to the EEC?

Senator Carter: Yes.

Dr. Pentland: One of the attractions of eastern Europe for the EEC is precisely that it puts off for a while some of those decisions with respect to growth and the need for raw materials. The Soviet Union can serve as a source of raw materials for western Europe for a little while, as can other countries, such as Rumania. This is, however, a short-term solution. Nevertheless, the flow of trade between eastern and western Europe will become much greater in the next 10 years. As you will be aware, the Soviets now seem predisposed to recognize at least de facto, the existence of the Community as an entity. Mr. Brezhnev's recent remarks seemed to point to something of that sort.

I do not have the figures to hand, but I believe trade between eastern Europe, including the Soviet Union, and the EEC, is to the order of \$6 billion a year and it is growing very rapidly (about 12% a year). The Soviets are extremely interested in the kinds of technology that are available in western Europe. I gather from the paper this morning that we are going to have a European security conference. I suspect that trade and technology are going to be one

of the main items on that agenda. So a lot of things seem to point to a great deal more interaction between east and west Europe.

Senator Carter: What course do you think Canada should follow in the face of these possible developments?

Dr. Pentland: It is difficult to point to a specific policy here. My general position is that we ought to institutionalize our ties more closely with western Europe. Presumably we are going to have to compete with the raw materials supplying countries for European markets, and we may find ourselves, unless we are careful, out in the cold, because some kind of preferential arrangements will have been made between the EEC and the Soviet Union and the EEC and other eastern European countries.

The Chairman: Perhaps, Senator Carter, you would like the witness to develop that word "institutionalize" a little?

Senator Carter: Yes.

Dr. Pentland: I have been throwing that around rather casually. What I really mean is simply that we should decide whether we want a formal trade agreement which sets up certain kinds of preferences, such as Argentina has been negotiating with the EEC, for example; or whether we want to have an association agreement of the kind which is permitted under Article 238. It could not be an association agreement which leading to membership, as is the case with Turkey and Greece, but some other form. The treaty is fairly flexible on that. In an association agreement we would presumably be meeting with the Europeans on a one-to-one basis, our people negotiating with the Commission. In any case we have to think about what institutional form our contacts should take.

Senator Lapointe: Do you think the United States would prevent us from doing that?

Dr. Pentland: They probably would try. I am not sure whether they could succeed, although I suspect they might make life fairly uncomfortable for us in some ways, as they showed they were capable of doing last August. I think the United States would quite rightly interpret this as a challenge to their relationship with us. It is nonetheless a challenge that we perhaps ought to make in some way or other.

Senator Fergusson: I have been looking at the article in *The Economist* containing the list of countries which might be eligible for association in 1975. Many of them are very small countries. It seems strange, in view of the fact that Canada has been represented at many trade fairs in Europe and must be known. Surely, they must have had more representation in some of these small countries, because they could not afford to be represented like that? Why is it that the European Common Market, apparently, is not interested in us at all? Is it because we do not produce the sort of things they would like to have? Is it because our products are not suitable for them? Why do they ignore us when they are considering feeding in these little countries which have fewer products and certainly could provide a much smaller market?

Dr. Pentland: Of course, the gist of most of these association arrangements is that these countries can provide certain kinds of tropical products which the EEC requires, foodstuffs of various kinds. I think you are right. We, with the exception of pulp and paper, do not produce a lot of things that the EEC cannot produce itself or get elsewhere. So to some extent we are suffering from the kind of economy that we are.

But my major impression is that we have not tried to compete very hard. We seem to have said, "We really do not produce very much that we can sell to Europeans, so let us not bother trying."; whereas we may well have been able to compete with some of their products.

Senator Fergusson: What about our trade fairs? A lot of money has been spent representing Canada at trade fairs. Have we not shown things that are of interest, or are our products not good enough?

Dr. Pentland: I cannot really comment on that because I am not too familiar with the details of our products or marketing techniques.

Senator Fergusson: I understand the EEC has set up missions in Tokyo and Washington. Do they plan to set up missions in other countries?

Dr. Pentland: I have not seen any evidence that they do. They certainly have no intention of setting one up here, as far as I can see.

Senator Fergusson: I was wondering if any were being set up in any other countries, not just those two large ones.

The Chairman: Would it not be in Canada's interest to persuade them to do so?

Dr. Pentland: Yes. With the formation of our own embassy in Brussels devoted to the EEC, this may be something we can press for, as a logical exchange.

The Chairman: May I add a supplementary to Senator Fergusson's question? Do you think the announcement by the Minister of Industry, Trade and Commerce before this committee a week ago, about the task force, makes any sense, or is it too little too late?

Dr. Pentland: I think it makes a great deal of sense. It is not yet too late to begin developing our relations with the EEC. And the more information we have available to us on the European situation the better. In a sense we have always used the too little too late argument with respect to Europe, and as a result we have found ourselves at even more of a disadvantage.

Senator Cameron: Mr. Chairman, I apologize for coming in late and for missing part of the presentation. My question relates to what Senator Carter was asking about the depletion of energy resources and the effect of the tremendous industrialization. The most knowledgeable scientists are forecasting that at the rate we are going we will run out of the major sources of supply in 30 years. The European Common Market seems to be an attempt to make a

more rational utilization of resources within a given area. We will probably have to do that too. But there are other factors which might upset the apple cart. For example, Borlaug, who is the father of the green revolution, pointed out that about two-thirds of the people of the underdeveloped countries are dependent on the products of the green revolution, and these are not disease resistant varieties of crops, so if a disaster hit them we could have starvation on a scale that we have never before seen.

I am wondering if the EEC has been setting up any machinery to look into the aspect of a possible natural calamity and what steps should be taken to counteract it? I cannot be as pessimistic as some scientists. I believe we will get some new forms of energy and new means of control—we can do a lot in 30 years—but it seems to me that the planning of the EEC which, to me, is one of the sane pieces of evidence of international corporation we see today, should be concerned with that aspect. Have you any evidence that they are giving thought to this aspect of relationships with other trading blocs or other countries?

Dr. Pentland: Do you mean the problem of environment within Europe, or the possibility of some crisis with respect to the green revolution in the underdeveloped countries which the EEC should respond to?

Senator Cameron: What is happening in the burning up of our energy resources in this country here is certainly happening over there, so we must find some alternative sources. I mentioned the matter of food as one of the related problems which, it seems to me, the EEC should be concerned with in its long-range planning.

Dr. Pentland: Of course, the EEC has been trying for 15 years to develop a common energy policy, but it has so far really not accomplished a great deal. One of the main bases for this policy was to have been nuclear energy. As you know, the Euratom organization emerged just after Suez, which many people felt had shown that Europe could not rely on externally supplied oil for its energy requirements. Well, Euratom has been a bust as far as its major original goal is concerned that of developing a European nuclear industry; it has failed completely, for several well-known reasons. The major component in Europe's energy supply continues to be oil; I believe it supplies 60 per cent the total need. North Sea natural gas is going to take some of the pressure off this, but, by and large, Europe is still greatly dependent on external sources for its energy. I believe over 50 per cent of its energy is imported.

The crisis which occurred when the oil-producing countries raised their prices on two consecutive occasions provided a new stimulus to the EEC to develop its own energy policy, which would mean, in part, looking at new energy sources available within Europe and also trying to develop a stronger common front vis-à-vis suppliers from outside. That is not really long-range planning in the sense that you mean it, because it is really only putting off the day of reckoning. I think you will find more long-range planning in other European bodies such as the Council of Europe which has more freedom and less political influence at the moment—perhaps more freedom because less political influence! The Council can enter into long-range studies on the environment. Europeans are

quite aware of the problem, but I do not think the EEC has really responded in a positive way.

Senator Cameron: So, your answer is that at the moment they have not set up any effective machinery to look at this aspect?

Dr. Pentland: The environmental problem or the fuel problem, no. It is being done, as I say, nationally within Europe and within other organizations, but not, as far as I know, in the EEC as a major function.

Of course, the other side of this—I do not know whether this relates to your question about the green revolution—is that the EEC has become a considerable aid-giver in the last ten years. I believe it is No. 2 in the aid-giving area now and gives in the order of \$2 billion a year in official flows, \$5 billion if you include private flow. A good deal of this is of course French aid of private investment for former French colonies in Africa, and that total includes bilateral and EEC-administered assistance.

Senator Cameron: Really, what I was getting at is the no-growth point that Senator Carter was making and how this could come about. If three out of four people living in the world today are in the under-developed countries of Asia and these areas—and this is the area where the green revolution is feeding them today—if there were a natural disaster you could achieve no growth in a hurry, and it would have an effect on the developed countries such as those represented in the EEC.

Dr. Pentland: Yes.

Senator Lapointe: Do you feel that Canada should try not to be classified as part of the North American trading bloc, or is it useless?

Dr. Pentland: It may prove useless, but we should try. It is to our advantage to make the Europeans aware of us as an economic entity separate from the United States. I do not believe they are very much aware of this at the moment. I am not terribly optimistic

about the possibilities, but certainly we should have ourselves represented in Brussels with our own ambassador to the EEC and have a representative of Brussels here in Ottawa. This would be a significant start.

Senator Lapointe: Do you feel that the United Kingdom has not shown enough concern for the effects of its entry into the European Community on Canada and other Commonwealth countries?

Dr. Pentland: Well, I feel there is a difference as far as Canada is concerned. I do not think the U.K. should have been particularly concerned about the effects on us, because I do not think the immediate effects on us are as great as many of us like to believe.

I do feel Britain did have more of a responsibility to show concern for New Zealand, where there was a clear case of economic dependency on one or two major commodities.

The Chairman: And it did, in fact, show that concern.

Dr. Pentland: Yes, it did. Also, I think this was a reflection of New Zealand's own efforts. The man who is now Prime Minister of New Zealand, I believe, was the representative in Brussels at that time, and he made himself very evident during the negotiations.

I really do not feel we should have expected Great Britain to do a great deal for us while she was negotiating entry into the EEC.

Senator Lapointe: Because Great Britain thought we were strong enough to stand on our own?

Dr. Pentland: Yes, and I think they were right. We can't expect favours from Britain or the EEC.

The Chairman: Are there any other questions?

Thank you very much, Dr. Pentland. It has been a very stimulating afternoon.

The committee adjourned.



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, *Deputy Chairman*

Issue No. 5

WEDNESDAY, JUNE 21, 1972

Fourth Proceedings Respecting:

Canadian Relations with the Expanded
European Communities

(Witness:—See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Choquette	McLean
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk—(30).
Lang	

Ex Officio Members: Flynn and Martin
(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate
Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

* * *

Extract from the Minutes of the Proceedings of the Senate,
Thursday, April 27, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, June 21, 1972.

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.20 a.m. this day.

Present: The Honourable Senators Cameron, Carter, Connolly (*Ottawa West*), Fergusson, Flynn, Grosart, Heath, Lafond, Laird, McNamara, Sparrow and Yuzyk. (12)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Due to the unavoidable absence of the Chairman, the Deputy Chairman, The Honourable Senator Grosart, took the Chair.

The Committee continued its study of Canadian Relations with the expanded European Communities.

WITNESS:

Mr. Forrest Rogers,
Financial Adviser,
Bank of Nova Scotia,
Toronto, Ontario.

At 12.00 noon the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, June 21, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 10.15 a.m. to examine Canadian Relations with the Expanded European Communities.

Senator Allister Grosart (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, it is my privilege to introduce to you our distinguished witness, Mr. Forrest L. Rogers, Economic Adviser to the Bank of Nova Scotia. Mr. Rogers has been asked to appear before the committee because he has very close recent experience in problems of Canadian-EEC relations and is, in fact, just back from a trip to Europe where he spent some time in Brussels brushing up on the current situation.

Mr. Rogers has been with the Bank of Nova Scotia for over 25 years. He has been economic adviser to the bank since 1962 and is a graduate of the University of Toronto in political science and economics. I must say that is a very good course; I graduated from it in 1927. He is a member of the National Executive of the Canadian Institute of International Affairs and a director of the Canadian Council of the International Chamber of Commerce. Mr. Rogers is editor of the *Monthly Review*, with which I am sure all honourable senators are familiar, it being one of our very distinguished financial periodicals.

As honourable senators are aware, we have heard preliminary viewpoints from the Secretary of State for External Affairs and the Minister of Industry, Trade and Commerce representing the official view. Dr. Pentland gave us some insights from the academic side. I will merely say that I have asked Senator McNamara to lead the questioning. I would suggest that we withhold questions until Mr. Rogers has finished his opening statement. Then, if honourable senators will indicate to me, I will keep a list and call on you in order.

I am sitting as Deputy Chairman because Senator Aird, unfortunately, for reasons completely beyond his control, is unable to be here. He has been summonsed to stand by as a witness in a very important case before the courts, but he will be with us at our next meeting.

Mr. Rogers.

Mr. Forrest L. Rogers, Economic Adviser, Bank of Nova Scotia: Senator Grosart, I was pleased to receive an invitation to take part in discussions with your committee. I have been quite interested in some of the things you have done in the field of Canada's international relations. Your report with respect to relations with Japan I thought was a real contribution, bringing together some of the relevant thinking. Also I have had some connection with the Parliamentary Centre for Foreign Affairs, which has added to my interest in your work.

I should say in starting that I come to you not really as an expert on Canadian foreign affairs or relations with Europe in the sense that some of the specialists in the Department of External Affairs and others could claim that type of expertise. I am an economist, concerned with a broad range of Canada's economic interests. Our bank has a national organization and also a very large international business, because of which rather early in my work with the bank I took a great deal of interest in the international side, our trading problems, exchange rate problems and so on. I have, of course, been very interested both in what has been going on in Europe and in the broad problems of international trade and finance with which we are now faced. It is from this point of view that I speak to you.

I have really only two major lines of thought to advance, one of which could be termed a moving out from the view put forth by Mr. Sharp and Mr. Pepin with regard to the importance to Canada of a multilateral and non-discriminatory world trading system. Within this rather traditional and general notion, however, I put a little different emphasis on the facts of our present trading position and what this means to us than was the case with the previous presentations. This is true also of what I consider to be our major trading interests in the years ahead.

The other line which I should like to pick up is one which I do not think appeared in your previous hearings. That is to consider our relations with Europe in the perspective of the serious problems which face the world's trading and monetary system. In this context it is my feeling that there tends to be a fair degree of wishful thinking with regard to our relations with Europe and other countries, especially the U.S. There is a reluctance to face up to the essential inter-dependence of all the major countries in the operation of the international system.

I attended meetings in Europe recently at which the problems of the international monetary field were discussed. One of the formal presentations was made by Bill Butler, economist for the Chase Manhattan Bank, and unfortunately it was his last such contribution because he passed away very suddenly a day or two later. But the key point which he put so succinctly was that in facing the big international monetary questions these days we are not in a game in which some win and others lose. If we fail to achieve co-operation among the major countries all of us can lose. In my opinion, this put the notion of inter-dependence very well. It is a note which we should always keep in mind when considering these relationships.

I said I would touch on the question of our trading position in the context of our interest in a multilateral, non-discriminatory system. When considering our present trading position, the key aspect which must be kept in mind is the high proportion of our trade and business relations which is with the United States. You all know that this is due to the basic effects of geography and business patterns built up over a long period of time. It is important also to

note, however, that even in recent times the U.S. market has generated very strongly growing demands for the type of production found in Canada, both finished goods and industrial materials. An important reason for this is that access to the U.S. market has been relatively easy and, in fact, in some ways made easier, by tariff reductions and the existence of inflation in the United States. In this situation we have, of course, experienced the tremendous growth in trade in the field of automobiles and parts. This tends to distort the directional pattern of Canadian trade as a whole. But even if you knock that out, the fact is that the rate of growth in our exports to the U.S. has been substantially greater in recent years than that to all overseas countries, and greater also than that to the EEC. Another aspect of this, again leaving out automobiles, is that our growth in exports to the U.S. has included a high proportion of manufactured or finished goods. I think this needs emphasis in thinking about our relationship with Europe.

In looking ahead and trying to sort out forces at work, it seems to me that you have to recognize that in the U.S. there is a major effort now to get over the problem of inflation and to strengthen U.S. competitive capacity. There have been exchange rate adjustments to help this process. This is going to come into the picture and make the market conditions rather more competitive than they have been.

Even when you take account of this, however, you have to recognize a couple of important facts. One is the growing energy crisis in the US and a scarcity of other basic materials that we produce. Also, I think, if you could assume that trading channels remain relatively open, there could well be further good growth in exports of finished goods from Canada to the US.

So, all in all, it seems to me that there are very good reasons why our exports have moved so well to the US. The tendencies in this direction, I think, are likely to remain strong in the period ahead, and in general I think it would be foolish not to try to take advantage of this in thinking about our trading interests.

What about looking more directly at Europe in all of this? Obviously there is a desire to build up sales in any other part of the world, to try to diversify our markets and diversify the nature of our trade. But having said this, it seems to me that it is really nonsense, in the light of what I have been saying about our relations with the US, to talk about preferential deals with Europe.

Very briefly again, there are problems in this matter of preferences which even affect our trade with the Caribbean area, which you have looked at in the past. And there is one further point in this connection, without developing it: if you take note of the new currency or exchange rate arrangements in Europe which go by the fancy name of "the snake in the tunnel," if you can imagine us with the Canadian dollar trying to fit into the tight kind of arrangements they have set up there, it does not make sense at all. I think the idea of formal association arrangements with Europe is a red herring, a poor avenue to start thinking about.

If you look at some of the facts of the trading position, we have done very well in exports to the fast-growing EEC, the six countries there, but we have not done quite so well to the slower-growing UK market. The UK is just going into the Common Market. In both of these markets there has been some progress in enlarging sales of

finished goods, but not nearly as encouraging, even in relative terms, as what has happened in the US. In absolute magnitudes, of course, the quantities do not compare at all.

The major gains in Europe have been in basic materials. The key reasons for this do not really rest all that importantly on the lack of sales effort. You can talk about this and say there should be more effort, but it seems to me that the more important factors are the much better terms of access and conditions of demand in the US market; businessmen respond to where the market forces are most attractive.

When you talk about terms of access to markets, there was some discussion in your earlier sessions about tariff levels in the EEC. As I understand it, a much bigger problem so far as access to the European market is concerned lies in non-tariff barriers. There have been preliminary discussions and studies of this problem, hoping to do something about it in GATT. From what I have been able to make of the information brought out on the subject, and from my own observations, I believe this is a much more important problem than the tariff levels.

What I am trying to say is that there are many factors you have to take account of in looking at how well companies can do in the market. Of course, another thing is that in the European market there is the matter of different languages, different cultural backgrounds, marketing patterns, and so on, and it is a much tougher job to start selling in that kind of market than it is in the more familiar North American climate.

With respect to sales opportunities for the years ahead, I am not sure that the growth in Europe is going to be all that fantastic following upon UK entry into the Common Market. This may well bring some added stimulus to growth generally, but the basic population trend in Europe does not have the kind of growth that we have had, and still will have, on this continent, and I am not so sure that productivity gains in the next 10 years will be anything like as great as they have been in the past.

If you are looking at basic growth patterns as an element in relative export prospects, I would be inclined to rate prospects in the US at least as great from that point of view, and probably greater than will be true in Europe.

As I said, after you have taken account of these basic market factors, any effort to enlarge our sales or to lessen barriers to European markets would be helpful. In a direct sense, thus, we have an interest in lessening the barriers to make sales in Europe. In this regard, in fact, our interests are very much parallel to those of the United States in trying to minimize preferential aspects and trade barrier aspects to entry into the European market; and, of course, agriculture is a special case in point.

In a broader sense also, we have an interest in softening the pressures towards polarization of economic interests generally, that stem from the desire for integration in Europe, on the one hand, and the great growth of Japan on the other. But in Europe it is the integration side that is important.

Finally, from a very broad point of view, we have as much interest as any country in the world in there being "rules of the game" for trade and financial matters. It is within this kind of

pattern, of rules of the game and of non-discriminatory trading conditions, that we can best hope to build up our sales abroad and have the best chance of reasonably fair and stable trading conditions.

Let me just say a word or two more in this broad kind of way about the international monetary side of things. I think there is a short term context in which to look at this and a longer term context. In the immediate picture, the big problem is the continuing U.S. payments deficit; or to put it in a fairer and broader way, it is a world payments imbalance that we are faced with. It is clear that a good many factors contributed to this imbalance, including the impact of the Vietnam war in a very broad sense, and major shortcomings of American economic policy. On the other side there have been a lot of longer term structural market changes.

While one could say a lot more about the origin of the problem, the fact is that last year the problem had to be faced and, as you know, important remedial actions were taken. In the first place, the U.S. authorities were forced to do something about their own economic situation. Secondly, there were the long discussions that led in December to the so-called Smithsonian agreement, which included a realignment of the major exchange rates of the world, plus an agreement to work together to modify and improve the international monetary arrangements for the longer term.

In the nature of the decisions made—that is, to include exchange rate changes as a crucial part of the remedy for the world payments imbalance—it was going to take quite a long time before the readjustment or correction of the imbalance would occur. In fact, in the jargon that develops about these kinds of things, many of the experts have been talking about a J-curve as the way to describe the response to these exchange rate changes. The important point on this is that in the first few months—maybe as long as six or seven months—following an exchange rate adjustment you will get an unfavourable reaction to the exchange rate changes simply from price effects. It is only after that sort of period is past that you get into the upsweep of the J, or the period of improvement. And all our experience of recent years is that even once you get to the stage of getting the favourable responses to exchange rate changes, it still takes a long time, as long as a couple of years.

I think there are grounds to hope that we have gone past the six or seven months when the basic trade position of the United States goes through its worst period, and we can now look forward to a gradual improvement occurring. It will still be a long time, however, before we move to a kind of balance, or even a moderate surplus in the United States position in current and basic capital flows. Meantime, some kind of balance in exchange markets must be maintained by assuring confidence that the exchange conditions will be maintained, that the countries will work together, that in fact capital flows and so on will produce a balance. In addition, there must be an appropriate pattern of interest rate relationships to ensure that there is enough return flow of short term money to the United States to offset the continuing basic deficit that goes on for a time.

In February and early March there was a pretty rough patch when interest rate relationships were not as favourable as one would want, and when confidence was eroding rather discouragingly. However, after that conditions were straightened away, and we have

been getting enough of a short term capital re-flow to the United States to balance the continuing basic deficit in their accounts, and by and large exchange markets have been relatively stable.

There is one other point that I think could be brought up in this regard. During the winter the United States was hoping to get what were called trade concessions from Canada, Europe and Japan. There was a great deal of debate on this. In fact we did not do anything. The Europeans and the Japanese did do a little bit, but not a lot. Essentially, in a broad context the reason for trying to make such adjustments was to soften the obvious interim problem, and to make the basic exchange situation a little less vulnerable than it would otherwise be. Unfortunately, we did not get very much help on this side.

Senator Connolly: When you say “we”, do you mean the United States?

Mr. Rogers: No, I was referring to the world system generally. That is the context in which I have been trying to look at the problem.

Coming back to the European role in this broad picture, it seems to me that one first requirement is to have a reasonably co-operative attitude and approach from the European countries to whatever kind of exchange market upsets may develop. In February and March when, as I mentioned, we were having some exchange market difficulties, one of the problems was that there was some uncertainty as to what the attitude of major European governments was to the whole Smithsonian agreement, and to United States policies. In the end there were some meetings of the Group of Ten, and it was decided to make a statement that they were working together. In fact, some adjustments were made in monetary policy in both Europe and the United States, and we have since then come into a much better exchange market situation. The key point I want to bring out is that it is very important that Europe continue to play a role in this area, and I believe the hopes of this score are pretty good as things look at the moment.

A second point with respect to Europe's position is that it seems to me that the European countries have to play a very significant role in the longer term discussions about what sort of modified long term arrangements there are going to be for the international monetary system. One of the problems here is that the Europeans are reluctant to have trade questions—especially the question of preference within Europe and with countries around them—brought into the monetary discussions. It seems to me, again from a broad point of view, that you just cannot leave these trade questions out of the picture.

In a very similar way, I believe we have to look at the new European efforts to get currency integration, or the so-called snake in the tunnel arrangement. It will be important that Europe pursue these arrangements in a manner that does not upset or vitiate the workings of the broader international system.

It is all very well for them to try to work out arrangements that will facilitate their integration process, but it is not going to be good for them or for the world if they upset the necessary broader arrangements. On this score there are some real dangers, because the EEC countries, in my view, have embarked on this process of

monetary integration in the hope that progress there will be, in a sense, showy; it will stand out as something meaningful being done, and this will force a process of more political and economic integration. So quite a lot, in terms of the hopes for wider economic and political unification, is riding on the monetary integration plans. But in fact, if you do not get the progress towards more economic and political unification, it seems to me that it is very unlikely that the monetary integration steps can work. So there is a problem there.

There are almost certain to be pressures—just within the common market countries and particularly if you include Britain in the mix—making the monetary conditions in various countries diverge. In fact, in the past two or three days, we have had the first indication of some of this developing, because with the threat of a dock strike in the United Kingdom there has been real pressure on the pound sterling, and there has thus had to be support from Germany, France and Belgium, in the markets, for the pound sterling. The key point is that monetary conditions can diverge as the result of all kinds of factors which may enter one country and not others.

In addition, all of these countries are going to be responding to whatever is happening in the other parts of the world and particularly in the United States, and the influences emanating from the United States may not affect these individual countries all in the same way. So I think there are almost bound to be pressures on the currency system that they are trying to set up.

Then, beyond this, there is this problem of trying to work over a period of time towards the longer range international monetary arrangements. Up to now, it has been pretty difficult even to get the process of official negotiations going and to decide on the forum in which negotiations are to be carried out.

In this part of the world, we tend to hear quite a bit of criticism of the United States—much of it in fact from Americans—for dragging their feet on these discussions. But in fact the Europeans are no more champing at the bit to get going on the negotiations; and in the longer run it may be the Europeans who tend to drag their feet more than the Americans on this.

Within the whole area of the international monetary arrangements, of course, there are a great many technical questions; and it is just not sensible to try to go into those in any detail here. If you want to talk about them a bit, we could.

However, it should be noted that workable solutions to many of the technical questions will hinge on the willingness of European countries to take a bigger share of responsibility for the way the system works than has been the case in the past. The United States has been the key country in the system up to now. The United States dollar has been the crucial currency in the world. It now looks as though this can no longer be. How do you build a system in which you have a greater sharing of responsibility, and a system in which the United States dollar is not the pre-eminent currency that it has been? Again in a very brief way, the hope is, from a broad international point of view, that the arrangements will be worked out through the International Monetary Fund, that the IMF will come to be a more truly international body than it has been, and that the special drawing rights that were set up under the IMF will

become the central currency factor in the international system. To achieve any of this, the European countries have to play a big role.

As I suggested before, moreover, if the system is going to work out, at times the European countries may have to give this a pre-eminent place in their set of priorities, putting it ahead of their own efforts to secure regional monetary integration in Europe.

Having talked around some of these broad questions, I should like in concluding, to suggest one or two implications for Canadian policy. In particular, what I would argue is that in examining these questions and in talking about them in international meetings we have a big stake in putting quite a bit of pressure on the European countries. It is more important at this stage of affairs on the international scene that we put pressure on Europe rather than on the United States. In most of the questions that are really important to us, at this stage of history, the interests of the United States run very much parallel to ours. But the European interests do not. It seems to me that what we ought to be doing—in a diplomatic, tactful way—is to keep pressure on Europe to play its role in the international field and to do the things that will make the international system work.

Mr. Chairman, this may have been longer than I had intended.

The Deputy Chairman: Thank you very much, Mr. Rogers. I am quite sure, from the interest shown, that it was not too long. You have opened up many new avenues of questioning and have certainly placed our terms of reference in a much wider context than we have been looking at them so far. Senator McNamara.

Senator McNamara: Mr. Chairman, first of all, on behalf of the committee, I would like to thank Mr. Rogers very sincerely for his very lucid presentation this morning. If I may say so, I think his language and presentation were more or less in terms quite easily understood by people like myself, more so than some of the more academic witnesses who have been before us.

Mr. Rogers, most of our committee realize that as a trading nation Canada is probably being confronted with one of the most difficult situations in our history, not only as related to American policies but also in relation to the enlargement of the EEC. For this reason, we are so serious in this investigation to welcome the opportunity to have witnesses like yourself—economists, financial advisers—come before us with their views, other than just the official view presented to us by government people.

Coming to questions, to me the main problem that Canada as a trading nation—and, I emphasize, as a trading nation—is confronted with is the extent to which we should become associated, directly or indirectly, with the enlarged European Economic Community. I know that we cannot become eligible for full membership, but there are other types of association that we could consider. Many feel that we should direct our thoughts towards making an independent effort to become very directly associated with the enlarged Community.

Do you consider such a step by Canada to be desirable, or is there a possibility that we might to some extent destroy the very friendly type of co-operative relations we have in trading with our largest customer, the United States, by taking independent action? Are we better to press to become associated directly as a nation

with the enlarged Community, or would we do better by more or less remaining in the North American boat and endeavoring jointly with the Americans to expand our trade in that area?

Mr. Rogers: With reference to the question of association, I just cannot see how we can envisage any type of formal arrangement, certainly not as long as we support a multilateral, non-discriminatory system. There are rules for establishing common markets or free trade areas and so on. One of the problems confronting the world now is that Europe seems to be stretching these rules pretty far. Basically, however, I just do not see how we could expect the United States to sit calmly by while we attempt to establish anything in the nature of a significant special arrangement with Europe. This applies also, or will apply as we move a little further on, to some of the proposed special arrangements for countries in the Caribbean. I just do not think the United States will stand idly by and see some type of preferential arrangement established between the Caribbean countries and Europe.

Politically, therefore, I find it very difficult to see such a development taking place. I had attempted to argue in a general way that at this stage it seems to me much more helpful for us to press as hard as we can to maintain the multilateral system as much as possible. To do this we should, in a sense, support the United States, or take a similar line to theirs, in an attempt to minimize the preferential discriminatory aspects of the Common Market. If the European countries are to achieve integration and a common market, they must have an element of discrimination, but there can be matters of degree. It now appears that the international system would work better if we could minimize the elements of discrimination.

In my opinion, the United States took the real initiative in obtaining the agreement of the European countries and Japan to institute another round of trade discussions next year. It is hard to say just what will come out of this. In my opinion, a major motivation was to attempt to minimize these elements of discrimination in Europe. Only by such a process does it seem to me that we can minimize the pressures towards polarization around the world. If, in fact, we can hold such discussions, Japan will also be involved and we will be proceeding in a manner which will fit Japan into an international system. If Europe, however, presses more in the direction of considering its own interests, and there is an untidy situation internationally, Japan will be forced to become rather more interested in centering on Asia and establishing its own sphere of interest there. In such a world we would be thrown more into the arms of the United States, which we do not desire.

The solution is not for us to work for a special deal or type of association with Europe, but to endeavour to keep Europe within an international system. Maybe this is a little idealistic and may not work out very well in the end, but I think it is the basis on which we must work.

Senator McNamara: You made reference in your presentation to the growth of the Community and its productivity. There is, however, some feeling that due to the rapid increase it may be entering a period of recession. Is it not the case that in that event they will become more restrictive in their trading policies? Using Japan as an illustration, it is thought that they will become, not so

much from the tariff point of view, but from that of purchasing, very restrictive in their treatment of countries such as Canada.

Mr. Rogers: I was not speaking in terms of a recession or an actual decline in growth. In fact, one of the encouraging aspects from the shorter term point of view is that in Europe they seem to have turned the corner in their business trend. They have experienced a modest recession, but they seem to be recovering from it. There are hopes that Japan is also approaching that point, although the position is not quite so clear there. In Germany, in particular, they seem to have started expanding again and the U.K. has been showing a better growth pattern recently. So, from that point of view it looks encouraging.

Of course, the U.S. economy is moving ahead. Therefore one of the main dangers at the time of Nixon's measures last August, as to whether in fact the world was going to head into a real slow-down or recession and thereby accentuate protectionist tendencies all around, seems to have been avoided, at least for the time being.

On the growth side I was referring to what might be the underlying growth trends. One of the arguments advanced for us paying a lot of attention to Europe and making some type of deal with them is that this is one of the most rapidly growing economic areas, and the market prospects, should therefore be very good. This has been true in the past, but I am not sure that the growth in the enlarged Community will be so outstanding in the next 10 years. I think it will be substantial as long as the international system is functioning reasonably well, and there will be growing market opportunities for us within it, but it will not be in a completely different order from the type of growth we are likely to experience in North America.

Senator McNamara: Along the same lines, Mr. Chairman and Mr. Rogers, it creates difficulties for me to envisage just how trading relationships will develop between the enlarged Community and countries such as Canada. In the past, even with the ten, each of the ten more or less independently conducted their own trade arrangements. Now the Council of Ministers and the enlarged Community may cause them to become more centralized.

Do you forecast that the countries such as Canada will be able to deal with Germany, Italy and other countries more or less separately, or will we also have to make either diplomatic or trade representations through the Council of Ministers to ensure that we are not discriminated against in one of the individual countries?

Mr. Rogers: I was really intrigued with some of the evidence you received from Dr. Pentland on the kind of messy situation in these kinds of matters. I think this is a good way of describing it. I think that Canada and Canadian representatives will have to continue to go to the individual countries and talk to them, and they will have to go to Brussels, to the commission.

You try to figure out which one is the important one for a particular issue with which you are concerned. When it comes to actual trade negotiations, if, in fact, we proceed on the further round of general trade liberalization that is proposed, it will be representatives from the commission who will do the talking.

They then, in turn, may have to take account of what people in the individual countries are saying. But the formal discussions have

to be with the commission. One of the people whom I have met among commission officials is the man who has headed their trade negotiations, and I have never myself run across a tougher sort of debater and negotiator. Maybe you have, having been more involved in this kind of game.

If you are talking about formal negotiations, that is where you would have to go. But if you are really concerned about the market for a particular product, you might have to go to the individual country. This is probably going to be the case for quite a long time, I think.

Senator McNamara: I have one more question. It is related to some of my own experience in trading matters. I would like to have Mr. Rogers' opinion on a financial matter. In the last decade, one of the instruments which Canada has used very successfully in negotiating sales of grain—which, as you know, I have been interested in—has been in extending government credit on normal commercial rates to many of these countries—not western Europe, but Poland, Czechoslovakia, Bulgaria, Yugoslavia, and other areas such as China. As salesmen, we have found it very beneficial. It gave us tools which we did not have before to compete with United States give-away programs. Do you think there is a possibility that by extending credit on commodities such as grain, or other raw materials, there is an instrument here which we can again use with some success in western Europe?

Mr. Rogers: I do not know. You would know better than I about the grain side, by a long shot. In general, I do not think that credit is a very serious problem in areas, apart from grain, in the European market.

Senator Connolly: That is, in western Europe.

Mr. Rogers: Yes. That is an important distinction.

The Deputy Chairman: It is nice to hear it from a banker.

Mr. Rogers: In a very general way, there have been some new and interesting developments on the credit side. I should make it clear that although I am an economist with a bank and have to know something about finance and credit, I have had no experience as an operational banker. So I have some limitations on that score. Nevertheless, one of the interesting things that has happened, in my view, is the development whereby the Export Development Corporation will work out joint credit arrangements with the banks, essentially involving the banks taking short-term maturities of a credit and the corporation taking longer terms.

This seems like a fairly simple kind of arrangement. I have been surprised at how long it has taken for this to really emerge in Canada.

Senator Carter: Mr. Rogers, if I understood you correctly, running through your presentation this morning were two themes. One was that Canada, as a trading country, looking to the future, should not overlook the possibility of continued growth in the American market for Canadian goods, including manufactured goods, as it has done in the past. The second was that Canada's

future world prospects, including the Common Market, should be assessed in the light of the fact that there is a tremendous need for co-operation on the part of the older countries in the world to overcome the problems with which they are faced. In other words, we all sink or swim together unless we co-operate.

I would like to come back to the first theme, about the American market. I have two questions on that and a few questions on the other. Is it not our problem that we have too many eggs in the American basket? Our efforts now are directed to finding other baskets, and that is why we are reaching out to the Common Market.

Mr. Rogers: On this point, it seems to me to be only sensible to do everything we can to diversify and obtain markets in other parts of the world. But having said that, I still come back to the facts of market conditions, as I tried to state them. The markets that have developed most readily for us have been in the United States. Within that, there has been a very encouraging diversification in terms of a wide range of basic products, and the gradual emergence of quite a range of manufactured, finished, goods sales. In that kind of sense, within the one market there has been diversification.

Another point of significance here, it seems to me, is that you can tend to overrate the business of benefits of diversification by area, because, in a very broad sense, as I was arguing in the other part of my presentation, we sink or swim together. If, in fact, the United States moves into a rather poor business trend, and by so doing has an upsurge of protectionism, this is going to affect other markets around the world, and our prospects in those other markets are going to be damaged, along with those to the US. In a sense, you may be chasing a phantom in looking for benefits of diversification in this way. There can of course be problems of a political nature when so much of your trade is with one country; you are dependent on not just economic forces, but there can be political elements enter in, and the United States authorities may take steps that are not in our interests. In that kind of circumstance we just have to do the best we can with it. I would not rate this problem nearly as high as the general economic considerations that enter into all of this.

Senator Carter: With our present balance of trade, our lopsided trade with the United States vis-à-vis the rest of the world, do you think that makes us vulnerable at present, and that if we continue in that direction we will become even more vulnerable as time goes on?

Mr. Rogers: I do not really think so. It could be true, of course, if one could build up a case that the United States was going to be entering an era of very slow and discouraging growth, maybe similar to what the United Kingdom has gone through for some years. With so much of our trade and sales effort focussed towards the United States, if it were a slow-growing market this would create something of a problem for us. But this is not the way that this proposition is usually put; in the way it is usually phrased I think it is greatly overdrawn. I just do not rate this as the kind of problem that some people seem to.

Senator Carter: I turn to the need for interdependency on the part of all the trading nations and the need to co-operate. I presume

the greatest need to co-operate is to find some means of developing a better system of exchange rates, clearance of balance of payments, or integration of currency. You mentioned the balance of payments versus the exchange rate. Does the exchange rate depend mainly on the balance of payments, or are there other factors that are as important?

Mr. Rogers: That is a nice question. Essentially, the exchange rate has to bear a relationship to the flow of trade and payments being made, but at any time you can get all kind of expectations entering into the market. This will for a time have quite an influence. These expectations may arise out of economic events, or may arise out of political events and how the market interprets them.

Senator Carter: So far as exchange rates are more or less dependent on ideas and whims of people, speculation and expectations, how is it possible to develop any kind of system that will eliminate that factor, or even make allowance for it?

Mr. Rogers: You cannot eliminate this. This is a problem that arises essentially in the shorter term. In the longer term, basic trade and payments flows are really the significant influence. In the shorter run, the problems here are similar to those of monetary management within a country. You have authorities of the various countries attempting to discourage unreasonable expectations that are appearing in the market. Or, to turn it around, you are trying to create an atmosphere of confidence that market conditions, interest rates and so on, are reasonable and will be maintained.

There is this whole question of flexibility of exchange rates, and we have now in the international area moved into a set of rules with wider bands around established parities as the way these things are done. This gives a little more scope for management and for maintaining confidence in the established exchange rate situation. However, we have yet to test how the new band works, and it may be that the band is wide enough now in itself that the swings that may occur within the band may lead to unsettlement and unsettling expectations. I do not personally think this will be the case, but we have to go through a period of actual experience to see how this works.

Senator Carter: This is one of the problems that I find difficult to figure out. The United States is such a vast market for the other countries of the world, in relation to the other countries of the world, that it is to the advantage of every other country, including Canada, to have an exchange rate in their currency lower than the United States. Obviously, if you had that, where every other country has an exchange rate lower than the United States, you would immediately put the whole thing out of kilter.

Mr. Rogers: It has been out of kilter for essentially this kind of reason.

Senator Carter: I am wondering whether we should not have some other criterion apart from balance of payments.

Mr. Rogers: You cannot. The exchange rate is just the price that gets established on the flow of payments out and receipts in. Like

any other kind of market situation, you cannot divorce it from the factors that are in the market.

Senator Carter: If you neglect that, you will have two choices. You can either let it float on the world market in proportion to what your international trade is, or you can peg it, and then you have to control your trade within those limits.

Mr. Rogers: Yes.

Senator Carter: Which do you prefer?

Mr. Rogers: That is a nice question. We could take a long time on that. Very briefly, I think our primary interest is in the international rules of the game. At the moment the international rules of the game, as I indicated, are for pegged rates with a wider band around them than used to be the case; 2 1/4 per cent on either side of parity is what was agreed at the Smithsonian meetings last December. I think most of the time we ought to be able to live with that kind of regime, and it ought to be an objective of our policy as soon as possible to get within the rules of the game.

In addition to the establishment of a peg with a wide band around it, there is now a recognition that it ought to be possible to change parities by smaller amounts, and more frequently than used to be the case under the original rules set up under Bretton Woods. Secondly, there is, shall we say, a general understanding that transitional floating is within the rules of the game; that is, when you get into the kind of circumstance that Canada has occasionally, where it is very difficult to operate the pegged system, it is in the rules that you can move to a float for a transitional period until it is possible to re-establish a pegged rate. These kinds of rules are such that we ought quite readily to be able to live by them. The problem, though, once you get on to the floating system, is to make the political decision where the peg should be. This is particularly true in light of the view you are expressing, that countries generally seem to want to have their rate relatively low in terms of the United States dollar.

Senator Carter: The United States wants the opposite; she wants a favourable balance with the other countries.

Mr. Rogers: I think you cannot do that. There are some pretty difficult questions about the structure of payments, and particularly about how large a flow of direct investment capital from the United States to other parts of the world is appropriate in the interest of a world system. We worry about it in our own particular context, but you can worry about this in a general world context. Having said that this is a problem we have to try and sort out over a period of time, you still should be working towards a system where the United States is in a balance with the rest of the world. They are obviously way out of balance, and the real problem now is to get the United States back to a balance.

Senator Carter: I have one last question, Mr. Chairman. In view of this mutual inter-dependence, that we all sink or swim together, why are the major nations so reluctant to co-operate?

Mr. Rogers: By and large, this is a problem of trying to live with one country that is so much bigger and more productive and richer than other countries. We have had a system built around the predominant size of the United States and the very widespread use of United States dollars in the world; and it worked very well. I have not brought in all the facts that one could put into this. We now have a system where the United States is not nearly so predominant in terms of productive power and where the United States dollar cannot play the kind of role that it has played in the past. That is because there are \$60 to \$70 billion of short term liabilities, short term dollar liabilities, and the United States has only \$12 billion of short term liquid assets—and the “bank” just will not run in the world now with this kind of situation. From these two elements, you can see that you have to work towards arrangements whereby something else is the centre of the system. As I tried to argue, you have to have a system whereby other countries share more of the responsibility for the running of the system.

Senator Carter: Thank you.

Senator Cameron: Canada is in the position at the moment of looking for a new industrial strategy for the next ten or fifteen years, and this strategy is concerned with providing a maximum number of jobs, reducing unemployment. This obviously means expanding our markets, and so on. Most people would go along with the idea that we should cultivate as large a trade with the United States as possible, that it is a desirable thing to do. But we have to examine that potential against the facts.

If you examine the history of President Nixon's public career, it has always been highly protectionist. Then we had that international disaster from Texas, Mr. Connally, coming into the picture, with his almost cruel pushing of the United States position against the interests of everybody else. This has created a climate that is bound to have long-range effects. But this new economic policy of the United States is not isolated. On the other side, you see their position vis-à-vis big tankers coming down the west coast, and they say, “We are going to do this whether you like it or not.” So we have a climate created by the United States saying, “We are going to do this whether the rest of you like it or not.” That is not very good for international co-operation.

Against that, you have the natural reaction of the people of the European Economic Community. They are being forced to be equally tough. Where does that leave a small country like Canada? We are trying to make arrangements formally through the EEC for expanding our markets; but do you not think that we must follow up every opportunity, and look for more opportunities, on an individual basis, to get markets wherever we can get them?

You said a moment ago that we could not blame the lack of sales on lack of effort on the part of our commercial people. This may be right, but we are in a climate where Canada, if she is to maintain her standard of living, has got to find markets wherever she can. Does that not involve, one, making whatever deal we can with the EEC; two, making individual deals wherever we can—in other words, being realistic and not idealistic?

Mr. Rogers: You put the question very well. There is a real problem for us and other countries in the world to cope with

elements of the United States power, both economically and politically. For us, it is the toughest job in the world, because we are so close to them. I do not want to minimize that there are problems. We have to be on our toes and think all the time about ways to cope with this. Other countries in the world feel the same way.

This is a kind of problem where we may be on the road to patterns of solution. There is a discussion about trying to work for international rules dealing with the operation of multinational companies. That is one aspect of it. Other things may develop in time. Probably, it is more effective to try and cope with these kinds of things in company with other countries than to try to do it ourselves.

That general kind of view is what really leads me to argue for continued support, as strongly as we can, for the multilateral approach and to support the multilateral institutions—the IMF, GATT, and so on.

In the end, because of differences between Europe and the United States, this may not work very well, and we will always have difficulties.

One of the toughest things to face is that, while we are coping with United States power we have to keep in the back of our minds that, if we take steps antagonistic to the United States interests and if the Europeans do likewise, the United States will react and turn inwards and the end of this kind of game is that we are all going to be worse off. The problem is to try to figure out ways to cope with the power, whereby we all prosper reasonably well.

There are other aspects of the way you have raised the question which cause me to react. Personally, from a broad sense, I would not characterize Mr. Connally as “a disaster”. I think that he created some discouraging kinds of personal elements in what went on. He aroused for a time rather disturbing pressures around the world. Nevertheless, in a sense he was the embodiment of a U.S. move to face up to the shortcomings of its internal economic position, and he also stated very effectively the United States case in the world. Whether or not we liked it in other countries, I think we are all better off at this stage of the game for his having put it the way he did.

You will find in surprising places around the world a rather cooler assessment of Connally, now that he has retired from the scene, than was previously the case. In my opinion it is worth putting this on the record, because I feel that there is a widespread sentiment in this country of irritation with the United States and Connally's treatment of us which has some relationship to what went on. My view, however, is that as Canadians we have been too reluctant to face up to the problems of the United States and, as a result, those of the world.

The Deputy Chairman: Senator Cameron, may I follow up your very interesting question as to whether our posture in favour of a multilateral, non-discriminatory system is realistic? “Idealistic” is the way you put it. Could I ask Mr. Rogers to give us just a thumbnail sketch of the state of the art as it is today, compared to that at the end of World War II? Has the world made progress in this direction?

Mr. Rogers: We have made tremendous progress and there are good reasons to hope that this will continue. However, it will be more difficult in a world in which we must have more sharing of responsibilities than it was when the United States was more predominant and was pursuing an enlightened policy as a major country.

The Deputy Chairman: Our policy has been termed a boy scout policy by some, but you think we are on a winning course?

Mr. Rogers: Yes. Could I add one other note with regard to this? Cynics will talk about all the shortcomings of the multilateral rules and say that we already have GATT, but countries do not live up to it. I would argue, however, that it is still better to have rules which operate over a fair part of what goes on and may be broken once in a while, than to have no rules at all. On that basis I think we are a long way ahead of our position of 25 years ago.

Senator Cameron: Maybe I was too hard on Senator Connally. If he had not done it, some one else would have in time.

Mr. Rogers: The U.S. position is still essentially the same.

Senator Cameron: Yes; the way he did it created a very unfavourable climate, but that is by the way.

The next point of concern to me is the application of the DISC program. Apparently we cannot yet assess what are likely to be its effects. Again being realistic, we can only assume that it will not be the best thing for Canada.

Related to that is the reason for the establishment in Canada of so many subsidiaries by the Americans. It was not because of any goodwill towards us, but a means of entering the European and, in particular, the U.K. market and obtaining preferences there. Now those will be phased out. Does that mean that within a year or two they will gradually close down some of the subsidiaries that were established here in order to gain entry to the United Kingdom market, which will no longer exist and which will again in the short run have serious consequences for us?

Mr. Rogers: This opens a wide area of discussion. As a first, very quick answer, I do not consider that this is a very serious problem in the sense that you have put it forward with regard to companies being dependent upon the British preference and now accordingly having to phase out. This has become a rather minimal part of the whole operation of this type of company. It was important in the 1930's, but it has become less and less significant as time has gone on.

Your question raises an interesting aspect of why American direct investment has moved into other countries. It is in large part because of tariff structures which have built up. In the old days our own tariff and the British preferential system were major elements in encouraging American companies to enter this country in the first place. Our tariff is still a factor in their existence and the problems we discuss of too many of them and so on.

More recently this has been an element in the flow of American direct investment to Europe, where a preferential tariff system is being established from within which one can operate much better

than from without. The Europeans in many ways are just like us in complaining about these foreigners coming in and achieving control of industry. They take steps to discourage this but, at the same time, they maintain the tariff system which basically encourages it.

One of the advantages which might occur if, in fact, we can further reduce all tariffs, particularly those around the preferential European market, is that there might be less distortion of capital flow.

Senator Cameron: I agree with you; the picture has changed since these subsidiaries were established.

We are concerned with finding out, or anticipating if we can, what will probably be the result. Obviously again this is being idealistic. We must accept some form of multinational agreement. Some prominent Canadians declare that we should have a 95-cent dollar vis-à-vis the United States dollar as soon as possible. That sounds fine, but again being realistic, if it is going to be so good for us, it is obvious the other people will also do something about their currencies. So we are back again to square one.

First, do you see any prospect in the immediate future of a 95-cent dollar? Secondly, if we do arrive at that point, what will the others do?

Mr. Rogers: I do not see any immediate prospect of a 95-cent dollar. Secondly, as far as a particular country is concerned, we will say as far as Canada is concerned, there are current factors in the market, as we discussed it with Senator Carter, that basically determine where things will go. However, the current picture may contain elements which the authorities consider to be temporary. This has to be an element of judgment. Then the authorities may have a view that in a certain type of situation, such as now prevails, Canada's growth over a period of years would be better with a certain level of dollar than some other level. This has clearly entered into Canadian thinking concerning the appropriate rate. The trouble is that this is a matter of judgment, and we continuously endeavour to assess elements into the future. You have this element of wanting to lean on the side of having a lower rate rather than a higher rate. In the past we were able to get by with a number of countries having a lower rate than they probably should have, because the US could finance that kind of system. They no longer can do that.

You can argue, in fact, that a particular country in the end may build up a lot of difficulties for itself and may get a lot of unfavourable results from having too low a dollar. It is not at all clear that the benefits run all one way, as far as the country itself is concerned. But then, in the end, you are thrown back to the fact that an exchange rate is not just the concern of one country; it is an international concern. That is why you say that the rules of the game are important.

By and large, I think that one would hope that the central body, namely the IMF, would, in a sense, be the arbiter. When you are trying to sort out, as we are now, what is an appropriate kind of rate, surely quite a bit of weight should be given to what the IMF thinks is an appropriate rate.

If that is not, as things turn out, a good rate — if, for example, — this is completely hypothetical; I do not mean to imply anything in terms of decision-making—we chose \$1.02 at this stage, plus or minus

two and a quarter, and six months from now it looked as though this was too high a rate, the rules now anticipate that you make changes, and you can drop it down, say, three or four points and go ahead.

I do not think that we in this country have quite absorbed this sufficiently. I recognize that as a practical matter it is very difficult to figure out economically what an appropriate peg is, the world being in the state that it is; and politically, especially after the episode between Connally and Benson in December, it would be most difficult to choose \$1.02.

Senator Sparrow: You mentioned earlier in your remarks about bringing pressure to bear on the EEC. I understood it to have a broader outlook on trade. What type of pressures would you be referring to that Canada could bring to bear?

Mr. Rogers: Well, we have, in fact, been bringing some pressure to bear on them. I think that both Mr. Sharp and Mr. Pepin, in their visits, have impressed upon them their concern about the trade side, and they have said something of this in public. As far as I am aware, very little if anything has been said in public by official Canadians that the Europeans should really be playing a role in the international scene, in the way that I have tried to phrase it.

I put this criticism in the context that politicians have to take account of public opinion as they read it. There is a high degree of anti-American thinking on the part of the Canadian public these days, and politicians have to take this into account. But in terms of our long-term interest, it seems to me that it would be much better if our official spokesmen were making some loud noises about Europe and what it should do, rather than always making noises about the United States. We should not cut out putting pressure on the United States, but I think there ought to be a much bigger flow towards Europe.

Senator Sparrow: A change in emphasis.

Mr. Rogers: A change in emphasis. This is in the kind of public noises that you make. I do not know how important they are, but I think they are important in trying to develop a notion of what is required in our long-term broad interests. Beyond that, as far as private international discussions are concerned, I do not know for sure what sort of views are expressed by our officials when they go to the Group of Ten monetary discussions, and so on. I get the feeling, though, that they are relatively kind towards Europeans, where I would argue that it is better to make noises and push at them.

Senator McNamara: Discussions with GATT and the Kennedy Round tariff negotiations are all part of this pressure.

Senator Heath: I am grateful to Mr. Rogers for distinguishing some of the chickens and the eggs in this problem. I have been finding this most confusing. I wondered if he could comment on the Eurodollar. This seems to be a very interesting hybrid, or sport, if you like, in terms of a common currency for Europe. Where is the Eurodollar going, or has it been, or has it a future?

Mr. Rogers: Firstly, the Eurodollar is not really as mystical as it is often made out. The Eurodollar is just a US dollar which is outside the United States. I think that is the simplest way of looking at it. It is held outside the United States. This market has grown tremendously because, in a sense, it is the freest market for money in the world, or has been. It has provided a very helpful financial adjunct to the great growth in international business, a lot of it through multinational companies, but not all of it. I think the market is likely to continue to be very important.

The rate of further growth will obviously depend on how well the world international trade and financial system is working. It would tend to be limited if, in fact, the United States were to come into such a favourable payments position that it could remove some of the restrictions on outflows of funds from the United States. It would tend to be limited by this; but the market would not be closed off, by any means by this. The market would also tend to be limited if, in fact, the system does not work very well and countries find themselves compelled to introduce more and more exchange controls of one kind or another that limit the freedom of movement of funds in the market.

This has been happening to a degree. An example is that a few months ago Germany imposed a reserve requirement, or, in effect, greatly increased the interest cost of borrowing by German companies in the Eurodollar market as an alternative to borrowing within their own market. This kind of control obviously tends to have a limiting effect on the Eurodollar market. If you had growth in this kind of control, the market would be seriously affected. I am trying to outline some of the factors that are involved here.

There is one other general problem, and that is that I think it is clear that the existence of this very free market tended to add quite a lot to speculative flows of money when the world exchange situation was unstable. As soon as it became clear that exchange rates of certain currencies were out of line, were likely to change, or the market thought there would have to be change, the existence of this very free market meant that large amounts of funds could be moved very quickly in order to back up this bet, the gamble that this would happen.

There has been discussion about co-operative central bank action to try to deal with this problem. I think that central bank efforts, prepared to have the sort of operational considerations ready to put into place if this kind of situation develops, would be a good thing. We have moved in that direction. It really is not in being at this stage, but I think it would be desirable if this were brought about.

But this is only a kind of secondary problem. The basic problem here is in the actual level of exchange rates and the readiness with which they change. It is only when the market comes strongly to feel that a certain currency is out of line that there is a problem. The first line of defence here is that countries generally should be prepared to make sure their rates are at an appropriate level and change when change is necessary, and that they pursue policies that lead to confidence in the way they can maintain a rate. If this kind of situation is secured, then the speculation problem is not very important. However, this is hoping for perfection, and I think almost certainly there will be cases where the market will come to a view that a rate will have to change. I therefore think it would be

good to have arrangements in place to minimize as much as possible the speculation problem.

The Deputy Chairman: Honourable senators, Mr. Rogers has a getaway deadline, and we are getting very close to it. Shall we take one more question?

Senator Carter: Could Mr. Rogers tell us whether there has been any integration of currencies inside the communist bloc, Russia and all her satellites around her? Have the satellite nations integrated their currencies?

Mr. Rogers: In a sense they have, but it is such a controlled system that it is not very meaningful. A good deal of trade is essentially on a barter basis, so in terms of what we think of this they do not have integration.

Senator Carter: It is not parallel to the integration of the currencies for the European Economic Community?

Mr. Rogers: No.

The Deputy Chairman: Honourable senators, I think you would wish me to thank Mr. Rogers for coming here today. I am sure I speak for all of us when I say that he has certainly broadened our horizons in the matter we are discussing, that of Canadian-EEC relations, present and future.

Mr. Rogers, we are grateful to you for insisting on our looking at this matter in a much larger context than perhaps we might otherwise have done, and for making as clear as you have the close inter-relationship between monetary and trade policies. In our general discussions I think we tend to zero in rather on possible trade advantages or disadvantages, forgetting a relationship to other fiscal and monetary policies that may be involved. Again, on behalf of the committee I thank you for coming, sir. I might say, honourable senators, that Mr. Rogers came in from Quebec City this morning by plane and has to get away at one o'clock on another plane. We appreciate his giving us his time. I know it has added considerably to the important input that we need in addressing ourselves to this very important question. Thank you very much.

Mr. Rogers: It is a pleasure to be here.

The committee adjourned.

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Fourth Session—Twenty-eighth Parliament

1972

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

I N D E X

OF PROCEEDINGS

(Issues Nos. 1 to 5 inclusive)

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INDEX

Canada

- Canadian companies operating in Europe, list 3:20-21
- Great Britain entrance to EEC, exports, effect 2:6, 2:9, 2:10, 2:14, 3:7-9, 3:13, 3:16-17, 3:21, 5:13
- 95-cent dollar, prospect 5:13-14
- Trade
 - Commonwealth countries 3:13
 - Europe, European Economic Community 2:6, 2:9, 3:13, 3:15-17, 3:19, 5:6
 - France 3:10, 3:12
 - Great Britain 2:6, 2:9, 2:10, 2:14, 3:7-9, 3:22
 - Japan 2:9, 2:11, 2:12, 3:6-7, 3:15, 3:18-19
 - Mediterranean rim countries, sales negotiations 3:11
 - "Multilateral" 2:7-8, 4:9, 5:9, 5:12
 - Trade, monetary relations, United States 2:6, 2:7, 3:13, 4:13, 4:14, 5:5-7, 5:10, 5:12-14
 - See also*
- Industry, Trade and Commerce Department

Canadian Pulp and Paper Association

- Missions to EEC countries 3:9

Common Market

- See*
- European Economic Community

Commonwealth countries

- Access to EEC 3:18-19
- Trade with Canada, bilateral 3:13

EEC

- See*
- European Economic Community

European Economic Community

- Duties on imports 4:8, 4:9
- Energy policy 4:15-16
- Expansion
 - Agricultural imports 2:6, 2:10, 2:14
- Canada
 - Bilateral trade arrangements 3:12, 5:9-10
 - Consultations, trade and industrial missions, salesmanship 2:10-11, 2:15, 3:5, 3:9, 3:11, 3:18, 3:22, 4:15, 4:16

- Embassy Brussels, operations, enlargement 2:10, 2:13-15, 3:11, 3:19, 4:16
- Pepin, Hon. J.-L., Minister, significance, impact, statement 3:7-14
- Relationship 2:5-17, 3:7-21, 4:9-16, 5:5-15
- Sharp, Hon. Mitchell, Secretary of State for External Affairs, Canadian relations, statement 2:5-7
- Strategy for future 3:11, 3:13
- Trade options 3:13-15
- Currencies, unification 2:15-16, 5:6, 5:7-8
- Foreign investment, attitude 2:6, 2:12
- Future 4:13, 5:6-7, 5:9-10
- Information offices, abroad 2:14, 4:15
- Institutions, enlargement, changes 4:7-8, 4:9-10, 4:12
- Member countries, original, new, population 2:5, 2:11-12, 3:7
- Preferential trade arrangements 2:8-9, 2:17
- Significance
 - Economic 3:7
 - Political 2:12, 2:13, 2:16, 3:7, 3:13, 4:5-13
 - Social 2:15-16, 4:14
- U.S.S.R., impact, comments 2:12-13, 4:14
- Gross National Product of member countries 3:17
- Statistics, Canadian exports 3:16-17
- Studies, University of Montreal 4:6, 4:10-11
- Treaty of Rome
 - Article 237—Membership 4:8
 - Article 238—Association agreement 4:14-15

Foreign Affairs Senate Standing Committee

- Report on Canadian Relations with the countries of the Pacific Region 1:1-54
- Highlights of Conclusions and Recommendations 7:45-51
- Index of Committee Proceedings (Third Session) 1:i-v
- Pepin, Hon. J.-L., remarks 3:6-7
- Table of contents Issue 1 n.p.
- Witnesses heard, list 1:53-54

GATT

- See*
- General Agreement on Tariffs and Trade

General Agreement on Tariffs and Trade

- Future 2:11-12, 3:11
- Support continued, suggested 5:12, 5:14

Great Britain

- European Economic Community, entrance, effect on Canada 2:6, 2:9, 2:10, 2:14, 3:7-9 3:13, 3:16-17, 3:21, 5:13
- New Zealand, special treatment, dairy products 3:21, 4:16
- Statistics exports from Canada, 1966, 1971 3:16

IMF

See

International Monetary Fund

Industry, Trade and Commerce Department

- Capital projects, bidding cost, payment, ceiling 3:10
- Fairs and Missions Branch, expenditure 1971/72 3:9-10
- Incentives, risk-sharing, Canadian manufacturers abroad 3:10
- Incoming of Buyers Program 3:10
- Shipbuilding Temporary Assistance Program 3:10
- Trade commissioner service 3:9

International Monetary Fund

- Role, objectives 5:8, 5:12, 5:13

International monetary system

- Eurodollar, definition 5:14
- Problems, remedial actions 5:5, 5:7-8, 5:11-12

Japan

- Canada, trade 2:9, 2:11, 2:12, 3:6-7, 3:15, 3:18-19
- International economic system, discussions 5:9
- United States, trade concessions 5:7

NATO

- Status 2:16

North American Treaty Organization

See

NATO

New Zealand

- Great Britain, dairy products, special treatment 3:21, 4:16

Pacific Region, Report on Canadian Relations with the countries of

See

Foreign Affairs Senate Standing Committee

Pentland, Dr. Charles, Assistant Professor, Dept. Political Studies, Queen's University, Kingston, Ont.

- Curriculum vitae 4:5
- European Economic Community, political development, statement 4:5-9

Pepin, Hon. J.-L., Minister of Industry, Trade and Commerce

- European Economic Community, enlargement, significance impact, statement 3:7-14
- Report on Canadian Relations with the countries of the Pacific Region, remarks 3:6-7

Rogers, F. L., Financial Adviser, Bank of Nova Scotia, Toronto, Ont.

- Curriculum vitae 5:5
- International trade and finance, statement 5:5-8

Sharp, Hon. Mitchell, Secretary of State for External Affairs

- European Economic Communities, Canadian relationship, statement 2:5-7

United States

- Canada, trade, monetary relationships 2:6, 2:7, 3:13, 4:13, 4:14, 5:5-7, 5:10, 5:12-14
- Trade concessions, obtained, tried for 5:7

Documents

- Industry, Trade and Commerce Dept., additional information 4:4

Witnesses

- Dupuy, Michel, Assistant Under-Secretary of State for Economic and Social Development, Dept. of External Affairs 2:13-14
- Elliott, G., Chief EEC Enlargement Task Force, European Affairs Branch, Industry, Trade and Commerce Dept. 3:21
- Lane, A. W., Director, European Affairs Branch, Office of Area Relations, Industry, Trade and Commerce Dept. 3:10, 3:12, 3:16-21
- McNaughton, F. J., Chief, Overseas Market Development Division, International Defence Programs Branch, Industry, Trade and Commerce Dept. 3:10
- Pentland, Dr. Charles, Assistant Professor, Dept. of Political Studies, Queen's University, Kingston, Ont. 4:5-16
- Pepin, Hon. J.-L., Minister of Industry, Trade and Commerce 3:5-22
- Rogers, F. L., Financial Adviser, Bank of Nova Scotia, Toronto, Ont. 5:5-15
- Sharp, Hon. Mitchell, Secretary of State for External Affairs 2:5-17

The Honourable Senators**Chairman:**

- Aird, John Black (Toronto) 2:5, 7, 11, 13-17; 3:5, 7, 10-11, 18, 22; 4:5, 9, 11, 15-16

Deputy Chairman:

- Grosart, Allister (Pickering) 5:5, 8, 10, 12-13, 15
- Cameron, Donald (Banff) 2:14-16; 3:14, 19-20; 4:15-16; 5:13

- Carter, Chesley W. (The Grand Banks) 2:11-12; 4:13-14; 5:10-12
- Choquette, Lionel (Ottawa East) 3:6
- Connolly, John J. (Ottawa West) 2:10-11, 13, 15; 3:6-7, 9-15, 17-19, 22; 5:7-10
- Croll, David A. (Toronto-Spadina) 3:13, 16-18, 21
- Fergusson, Muriel McQ. (Fredericton) 2:15-16; 4:14-15
- Flynn, Jacques (Rougemont) 3:6-7, 12, 15-17, 21
- Heath, Ann Elizabeth Haddon (Nanaimo-Malaspina) 2:16
- Lapointe, Renaude (Mille Isles) 2:16; 3:20; 4:14-16
- McElman, Charles (Nashwaak Valley) 2:16
- McNamara, William C. (Winnipeg) 2:9-10; 5:8-10, 14
- Sparrow, Herbert Orville (The Battlefords) 5:14
- White, George S. (Hastings-Frontenac) 2:14
- Yuzyk, Paul (Fort Garry) 2:13-14; 4:9-10, 12

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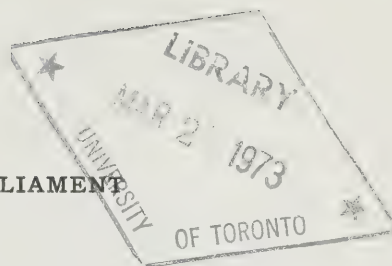


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FIRST SESSION—TWENTY-NINTH PARLIAMENT

1973



THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

TUESDAY, FEBRUARY 20, 1973

First Proceedings Respecting:

**Canadian Relations with the Expanded
European Communities**

Note: During the past session, four Proceedings were printed
respecting this subject.

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Nichol
Croll	O'Leary
Deschatelets	Rattenbury
Lafond	Sparrow
Laird	van Roggen
Lapointe	Yuzyk—(20).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 14, 1973:

“With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Molgat:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the said subject in the preceding session be referred to the Committee.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, February 20, 1973.

(3)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.30 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Bélisle, Cameron, Carter, Connolly, Flynn, Grosart, Lafond, Lapointe, Macnaughton, McNamara, Rattenbury, Sparrow and Yuzyk. (14)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee; and Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade.

The Chairman welcomed to the Committee meeting His Excellency Marcel Rymenans, Ambassador from Belgium to Canada.

The Committee continued its study of Canadian Relations with the Countries of the Expanded European Communities.

Witness: Mr. J. Robert Schaetzel, Washington, U.S.A. Former United States Ambassador to the European Economic Communities.

At 12.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, February 20, 1973.

The Standing Senate Committee on Foreign Affairs met this day at 10.30 a.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, before opening the proceedings, may I say how very pleased we are to welcome to this meeting the Ambassador of Belgium, His Excellency H. E. M. Rymenans. Thank you, Mr. Ambassador, for coming.

We are very pleased to welcome to the meeting this morning a distinguished American expert on ECC affairs, Mr. J. Robert Schaetzel. Mr. Schaetzel recently retired after spending the past six years as US Ambassador to the EEC. During these six years his position was made more challenging by the increasing controversy and friction between the Community and the United States. But in Brussels, I am told, Mr. Schaetzel had a reputation as a tireless and effective worker in sorting out these difficulties and in trying to improve the dialogue between the Europeans and the Americans.

Although he has left Brussels and also has left the American Government after 30 years of service, Mr. Schaetzel is still very much concerned with ECC matters. He has been commissioned by the U.S. Council on Foreign Relations to write a book on what American policy to the EEC ought to be, and he is simultaneously working under a grant by the Ford Foundation in areas related to the EEC. Because he is so well informed in this field, Mr. Schaetzel is in demand as a lecturer on EEC matters, so we are very grateful that he could fit in a trip to Ottawa en route to Chicago tomorrow to speak to the Chicago Council on Foreign Relations.

Mr. Schaetzel, our usual procedure is to ask the witness to make a brief introduction, after which the senators would like to question you. Senator Macnaughton, whom you have already met, will be the lead-off questioner today, and the chair will recognize the various senators as they indicate their desire to question you. You are very welcome, sir, and thank you very much for being here.

Mr. J. Robert Schaetzel, former United States Ambassador to The European Economic Community: Thank you, Mr. Chairman. As I said to your minister, Mr. Sharp, a few moments ago, and to your chairman, I was glad to do this when Mr. Dobell approached me, but I also became grateful after I got into it for two reasons: first I might not otherwise have read your proceedings of 1972, which I found very instructive and encouraging; and secondly,

I might not have had the advantage of the perspective that this occasion gives me to free myself, to some extent, of the obsession of concentration on American-Community relations, which I would suggest, at the moment is a rather unwholesome exercise.

I would also, if I might, commend this committee for what you are doing, and I only wish that the American Congress would engage in a similar enterprise to try to find out what is going on and where it is all leading.

I should like to make one other point, if I may, having read your record and having thought about the problem, a point that came up frequently among the witnesses appearing before you, which is the degree of common interest which Canada and the United States have in relation to this new phenomenon.

What I intend to do in these opening remarks, Mr. Chairman, is to make a few observations based on my reading of your 1972 record; and then, since you have cast me in the role of an expert, which is a very dangerous and largely unprofitable role, I shall be glad to answer questions, and I shall try to be clear on something which is terribly important. I say this because I am afraid you may ask me questions, the answers to which may carry a great deal of obscurity. I say this because it may involve the difference between my personal views and American policy, which do not necessarily coincide. Therefore I shall make some effort in this regard, but if you have any doubts, please ask me, because we have enough obscurity in this world without my contributing further to it.

From your record, honourable senators, you are puzzled, as, indeed, are most of us, as to what the Community is, what it wants to be and what it might become. If it gives you any satisfaction, the Europeans do not know either. There is a point Mr. Sharp made that I would underscore, and that is about the political content and the political impulse behind the Community. This was its original incentive; this really is what the whole process is about today; and to ignore this is to ignore something which is fundamental to any comprehension of the whole process of European unification.

In economic terms, the reality of the Community is its size and the influence that size brings to bear for good or ill. It is manifestly an imperfectly organized body, and it does not fit any political framework with which any of us is familiar. It is obviously much better organized in some areas than others, for instance, in its capacity to carry on trade negotiations.

Another point which struck me as I was going over the record of your proceedings—is the approach indicated by your ministers who were before you, and by the flavour of the questions which you have asked. It seems to me your attitude is open, it is interested, and it has a guarded optimism about it. I would certainly urge this point of view, if you can sustain it. This is not characteristic of the United States at this time, and I think that to have lost this approach is a great pity.

As I understand it, the objective of your enterprise is to determine what the Canadian approach should be to this enlarged Community. One could as well substitute a common set of problems, and we are examining the "United States" because we have common interests and same set of issues.

One of the most interesting phenomena or characteristics of the Community today is what I refer to as the short-term issue, the next year to 18 months, a period which I think is crucial. We can deal with this later if you wish. This is the period in which the Community will be evolving, taking on its new identity. I agree entirely with what Mr. Sharp said when he was before you, so I will not repeat that. I shall make another footnote to my own approach: I have been much criticized in the United States for criticizing the United States; I was criticized in Europe for criticizing Europe; so, at least, I have equally bad relations in both areas. I gave a notorious speech in Bonn about three years ago in which I warned Europeans of the kind of trouble they were getting into with the United States, and I told them that they ought to be more attentive to the side-effects of actions which they were taking quite innocently.

I would go, therefore, to several points: one is that the European Community today, and I think over the next period of time, is an inner-directed body. It is caught up in any number of problems related to its further development. For instance, the October summit led to a fantastic agenda of work for the Community institutions. Each of the member states is confounded by domestic political, economic and social issues. They are like so much of the rest of the world, including, I gather, even Canada, where we have more problems than we are able to command.

In its dealings with Canada, the United States and Japan, it would be my conclusion that the Community approach is essentially made up of two components: passivity and a degree of defensiveness. The Community as it is presently organized, and because of the problems I have indicated, is a body which has the capacity to react, or to block, but it does not have the capacity to take the initiative. I would say it is not dissimilar to our American Congress. I agree with the testimony of Mr. Rogers, which I found most impressive, that there is every argument to be made to try to persuade the European Community that it has a responsibility to take the initiative, but it will not.

There are real dangers in this situation, of which I am sure you are aware. Firstly, we inhabit a dramatically changed world which is highly inter-dependent and which, at the same time, is caught up in a new, almost emotional impulse of nationalism which could not be

more contradictory to the nature of our economic, security-minded world. In a sense it seems to me it is a world adrift. I come to Canada, talk with Mr. Sharp and am reminded of all kinds of things. I got into this business in 1945 and all kinds of things were being done in the period of the late 1940s and the 1950s to construct a trade and payments system; Canada was playing a tremendous role in these affairs at that time; and there was the whole optimistic mood surrounding all of our endeavours. The framework was created, but we have now lost confidence in ourselves; the framework is being eroded. I do not see anyone in charge.

What I fear—because I have a rather low opinion of the capacity of governments to gain control of situations which get out of hand—is that if, in this complicated world, things really become unhinged it could be impossible to put them back together again. This obviously leads to the whole problem of trade conflict.

The other day Mitterand said during his campaign that the trade war had already begun between the United States and the Community. In any event, it would be my judgment that if trade difficulties lead to trade war, and if in turn to a further deterioration in finance and defence, there would be no way of controlling this process. These risks are obviously enhanced by the mutual ignorance which, in my own country, is very high indeed vis-à-vis the Community. I say "mutual" because there is a degree to which Europeans today fail to understand the United States. There is a common impatience; there is a pre-occupation with short-term issues; and there are generally very short tempers.

The problem regarding Japan has come up in your proceedings, and I am particularly pleased to see the attention which Canadians, in general, but particularly the Canadian authorities are giving to the dangerous game we are playing with Japan, and the fact that there is latent in the situation either overt or covert collusion between the United States and the European Community against Japan. It would seem to me this is one of the most unfortunate developments that could occur.

I said before that what seems to me to be at stake at this particular moment is the multilateral trade and payment system from which we have benefited for over a quarter of a century, a system made up of rules and institutions, of co-operation, and a process of consultation. I submit we are moving more and more towards a regime of anarchy, and this could easily spill over into the areas of both politics and defence.

Sometimes I have the feeling, as I look upon these trade disputes, that a fire has broken out in the neighbourhood and the men in the firehouse are busy painting the place and cannot decide who is going to go to the fire; they would rather talk about who started it.

Finally, if I might be allowed a moment of presumption, Mr. Chairman, I would like to remind this body again of the unique contribution that Canada made in the postwar period to the foreign economic policy, on which I was brought up—what was accomplished would never have been accomplished in the absence of the Canadian contribution—and of the role that Dana Wilgress played. You might very well ask: Why Canada?

It seems to me there are a number of reasons, and one, on which you have a far better knowledge of the stake that Canada has in the international economic system, than I, is the extent to which your gross national product is dependent upon trade. Another is the fact that you have a natural relationship with the European Community. You are in an enviable position in that you are relatively disinterested, and you are not in an adversary relationship with the Community, although you may be with us. Also, you have the unique position of having both the Atlantic and Pacific Oceans on your shores. You have a feeling for Japan which, certainly, Europeans do not have and which, to a large degree, my own countrymen do not have. You also have an interest, which has been demonstrated by what you have done, in the Third World. Therefore, you come to these affairs with excellent credentials—in fact, with unique credentials. I ask the final question: Who else? So, as these proceedings are a catalyst in your own country, perhaps Canada can be a catalyst in these difficult affairs.

Thank you very much, Mr. Chairman.

Hon. Senators: Hear, hear.

The Chairman: Thank you very much, Mr. Schaezel. Perhaps you will gather from your reception—and certainly from my experience sitting in this chair and listening to opening statements—that your statement has been exceptional. You have been very direct and frank; and what we most appreciate is the expression of your own opinions. I was extremely interested to hear you put the problem in the time context of 18 months to two years; and you have indicated that this may be, I do not like to use the word “crisis,” but a crisis-oriented time.

As I indicated at the outset, we will now proceed with questions, and I call upon Senator Macnaughton.

Senator Macnaughton: Mr. Chairman and Mr. Ambassador: On behalf of all here and the Standing Senate Committee on Foreign Affairs, we certainly wish to thank you, firstly, for coming, and, secondly, for speaking so frankly and clearly to us. Whether you are right or wrong is unimportant to us at this stage, as long as we can get ideas and can draw upon your experience and judgment.

Being a member of the, I suppose, Establishment, so-called, although a very small one, I do get *Fortune*. In the November issue you discoursed at length, and I do not wish to misinterpret you, but there is one paragraph that seems to summarize your thesis. It is fairly short but fairly pungent, and reads as follows:

The drift toward mutual hostility threatens to retard the growth of world trade and to complicate reform of the international monetary system. Most important of all, it could weaken the common cultural, economic, and defense interests that link the nations of the Atlantic community.

Perhaps I am asking the last question first, but in view of the forthcoming trip that we are lucky enough to be making to Brussels, could I draw upon your experience? If Canadians are so politically conscious, if we have a unique position, could you tell us where we, as Canadians

going to Brussels, can make the most effective approaches to influence, not only the EEC policies by contact with the Commission, by contact with the Council of Ministers, by contact with the Committee of Permanent Representatives, but what is the best way for us or for Canada, if you wish, in dealing with the EEC to achieve our long-range national objectives and also resolve our short-term trade problems?

Mr. Schaezel: That is a large question, senator. I will try to answer two parts of it, and if it is not satisfactory to you, please come back. I think the first part is what you should try to do when dealing with the Community institutions in Brussels. The second part is, how does one handle these specific issues Canada has with the Community, which are not dissimilar from the problems which confront us in other countries.

In my opinion, one of the major tasks, which relates to what I said before about the inner-directedness of the Community, is first to sort of knock at their door and make them aware of what is going on elsewhere, and, I think, particularly in the advanced countries. In saying this I do not intend to be quite as critical as I sound. I was referring to a number of matters which are before the European Community institutions and the member governments. These are such that one can forgive them for not taking up other matters outside this particular agenda. It has been my experience, that governments have a very limited span of attention. They are capable of picking up, perhaps at most, half a dozen issues, generally fewer, which they will handle with a certain amount of concentration. Everything else receives what might be called passing, indifferent and superficial attention. This is one of the problems before the European Community today one we experienced in our own government. I think over the last several years the preoccupation with Vietnam, China and Russia allowed practically everything else to go by the board, so that this axiom of the span of attention is very important. I am making this point at some length just to say that your trip and the fact that you will be seeing the people there will have the important value of making them aware of another major country which has interests in things which they are doing which affect you and the international system. So that the mere fact of your being there will be a valuable exercise; and I think particularly, as the Chairman says, in connection with this mutation, this evolutionary stage of the Community, when they are beginning to make up their minds as to the direction they will take, it has that value.

Beyond that, I will mention only one major point. It goes back to my remark in the opening statement that the peril facing the international trade and payments system arises from many sources, not merely from the Community. We are making our contribution, the Japanese are making theirs, but it is basically that people are now using legal arguments to justify their actions, pointing the finger at the other person and not paying much attention to the pressures on the system. I think I would argue that it is coming to a point where one could even envisage its collapse.

Now, as your proceedings indicate and as I think your self-interest would dictate, you have an extraordinary interest in the preservation of the system and, in fact, in its improvement. I would hope that you ladies and gentlemen when you are there might not so much argue with them, but say what you want to question them regarding the kind of system they envisage and where they want the world to go. These are questions they really have not answered.

This goes to another point, which is the preferential system the Community has backed into. They are imaginative in terms of rationalizing what they have done, but it seems to me not to go to the point at all.

Turning now to your second question: What does one do about the specific issues? I think you must use all the instruments at your command, at the command of your government and at the command of your society. The European Community is a highly pluralistic phenomenon. There is no one place where we can go, as in dealing in a totalitarian society perhaps we could, but it is the opposite of that. Authority is distributed in the most extraordinary way. The decision-making process is very difficult.

There are a few points which seem to me important. The first is to get at problems before they have crystallized, because once the Community makes up its mind, and does it through a decision ratified by the Council of Ministers, to undo that is almost impossible. It is not unlike the American system, in which by the time a bill has gone through the Congress and become law, to change it becomes something requiring heroic qualities. Therefore, I return to the time when policies are being formulated and the identity of the Community is being struck. However, even on the specific issues you have, this point of getting at them very early indeed is important.

I have emphasized the pluralistic character of the Community. Certainly I would argue, and have argued both officially and unofficially in the United States, that the Commission is a critical body in relation to all these economic issues within the competency of the Community. I am not at the moment attempting to make fine judgements as to the importance of the Council of Ministers, the permanent representatives and so forth. I am merely saying from my experience, both in Brussels and earlier in the government dealing with this body for perhaps 15 years, that the Commission will tend to be not the lowest common denominator, but the highest common denominator of policy.

The staff of the Commission is a really uniquely competent body. I would like to make a footnote here, just for historical purposes. We live in a world of rhetoric, in which tags are applied to things. The Brussels Community is frequently referred to as a bloated bureaucracy. It has 7,000 people. I had a study made of this. There are about between 1,200 and 1,500 of what we would call officials as contrasted with secretaries, translators, supporting staff. You could take 7,000 people and hide them in our Health Education and Welfare department and for 12 months you would not even find them. So this is a small body, and I would say, within the extraordinary

limits they have to work, a very effective body; and they are people well worth working with on these specific issues.

Beyond that, as the preceding testimony you took indicated, you deal with all the sources of strength and decision-making. This would mean the permanent representatives. I am delighted that Jim Langley now has the position of being your discreet, in one sense of the term, ambassador to the European Community for Canada. He and your permanent delegation there will obviously deal with what has to be done, which is to work with the permanent representatives.

It is an institution of the Community, not anticipated in the treaty, which has become extraordinarily important. It is probably one of the hardest-working bodies and at the same time, one of the most insular bodies that I have ever run into. These people are totally preoccupied with the day-to-day work of the interstices of the Community program.

Then there are the member governments. We found, in our experience, that this becomes a very subtle business indeed. It is a subtlety which has escaped many of the people in Washington from time to time. Somehow the notion exists that you can do the Community job by lining up the ministers in the capitals and, then everything will be done. I think the record shows that you can have a lot of exceedingly friendly conversations with the ministers in the capitals, in which they will assure whoever they see that, "We love you very much indeed and, frankly, we will do everything we can for you"; but somehow it never works out once they come together. This is an aspect of politics which I have to admire, but I do not know how many times one can be fooled by this into thinking that you can do community business in this fashion.

Nonetheless, there is something that can be done in the capitals. That is the systematic discussion of the issues, the persuasion or attempted persuasion of the merits of the argument, to create an attitude, so that once a matter comes within this peculiar institutional process, the Council of Ministers, there will be people who understand the case. This is a most complicated kind of operation. It is, a part of the democratic process. It requires a very sophisticated approach.

One final suggestion I would make: that this should not be left to governments. This Community, with all of its complexities, is, as is any democratic society, subject to pressure groups, whether business, labour, or members of the intellectual community.

Again, Canada has special assets here in the fact that you happen to have colonial backgrounds which tie you to two of the major member states. You have a tie into the Community which on the cultural and the general level ought to be another asset which should be employed in this very complicated business.

You can look at the complexities in two ways: they can repel you; or, they can attract you. I hope you elect the latter point of view.

Senator Macnaughton: Thank you very much for that most interesting answer. I understand the Community has a mission in Washington, which I presume tries to keep in contact with the various forms of the U.S. system, and that Canada has failed to have a similar mission from the Community here. What do you think our chances would be? How effective do you think the mission in Washington is or has been?

Mr. Schaetzel: Well, I think the mission in Washington is very important. I had urged this on the Europeans, and had encouraged my own government in every possible way to keep pushing, to make this as important an activity as it can be. The reasons are very simple. If you are living in a sea of ignorance, in which mythology dominates, in many cases one of the major problems we officials have is to get the facts right. Thus we are frequently accused of representing both European and American interests. This is not a happy situation in which to be. One has to do this just to try to keep the record straight. Therefore, I would say an obligation falls on the Community to do something about this problem, and this goes directly back to why you people are engaged in the enterprise you are. That is, you are concerned about ignorance; you want to find out about what is going on; you want to lift the level of Canadian knowledge on this vital matter.

However, in my view, the European Community has a responsibility to do this itself, and if they have the ambitions to which they subscribe, they cannot escape this responsibility. Therefore, I would keep all possible heat on the Community by saying "We feel you have an obligation to us to establish in Ottawa a mission which will meet the problem of explaining yourself to us and being a channel of communication".

I will now be quite personal about the matter. One of the luxuries of being a private citizen—I wonder why I did not become one before—is to be able to say things I otherwise could not. One of the real problems here is the jealousy of the member states of the Community in seeing matters slip through their fingers. This applies particularly to foreign ministries who value the channels, the relationships they have established over the centuries which are diplomatic in character.

Now, I have all due respect for the nostalgia that goes with this, but with greater emphasis on economics, with the degree to which nationalism in certain senses is no longer a viable force, there is an anachronistic quality here. But in any event, the foreign ministries hold to this. I cannot speak of the Canadian diplomatic community. I know something about the community in Washington, and most of the European ambassadors are good friends of mine, whom I have known for a long time. A number of them, but not all of them, would say that they are in no position to handle the Community business with the United States Government. The Belgian ambassador in Washington, who is an exceedingly competent man, is now the senior person, because the Belgians are in the chair during this six months' cycle. I think the last thing that he would like to do is to have

to go in and argue a case, involving the Community, of a quasi technical character with the American authorities.

As a consequence, you need a mission founded on the competencies of the Community, which can do two things: the task of informing the United States, or of informing Canada; and being a channel for communication back. But it is the sensors that the Community have, the antennae that they have vis-à-vis the United States, which cannot be duplicated by the American or the Canadian representative in Brussels. So I would argue, in the first instance, that this is in the self-interest of the Community. It should be done by a Community office, and it is a burden which should not be placed on the nine ambassadors who are accredited to the Canadian Government.

What do you do about this? Well, first of all I would insist that they have an information office here. You can begin at that particular level, which does not raise some of the diplomatic, protocol and national sensitivity problems. This would be consistent with what you are about and with what I would assume the Canadian interests to be.

The problem, to make it a little more specific, as far as the Europeans are concerned, is that the French—other governments also, but primarily the French—have been exceedingly resistant in giving the Community *qua* Community any responsibility of this nature. They have been dragged along each inch of the way. The Belgians, in point of fact—not just because their ambassador is here—have taken the lead with Mr. Hamel doing all they could to get a full ambassadorial position established in the United States.

This battle within the Community goes back to a whole series of issues at the heart of the process of European integration. Some of those issues are: What is the Community? Does it have a political future? Is it a political entity? Is it supra national? Is it confederal or federal? Within this spectrum the French are manifestly on one side. Any pretention on the part of the Community that it is an important political body rather than a technocratic institution is something which they will fight and will continue to fight, I assume.

Therefore, the commission can have active diplomatic relations with unimportant countries. The United States, however, is, unfortunately, important; Canada is important; Japan is important. Thus, by definition, the greatest resistance applies to establishing diplomatic missions with countries which are important; those relations must be reserved to the national states.

In summary, this is an evolutionary process in which I would be inclined to be as aggressive as possible. I do not think an outcome other than having a modest diplomatic mission, say, in Ottawa or Tokyo, is in the interests of the Community, of the member states of the Community, or the countries concerned. I think it is indispensable. You people would be in an admirable position to do so in the course of your travels.

Senator Macnaughton: Mr. Chairman, I realize I must conserve time for other members of the committee, but

I think I am right in saying that government policy is decided by the government. It may be criticized, interpreted, or sold by senators and members of Parliament. That is our system.

Jumping now to the European Parliament, I understand there are twelve standing committees and that these standing committees discuss major sections of Community policy. My question is: Inasmuch as we are Parliamentarians going over there who, presumably, will meet parliamentarians from this European Parliament, what influence on the Community do the European Parliamentarians have at the present time? How effective is their influence?

Mr. Shaetzel: That calls for a highly subjective judgment, but—

Senator Macnaughton: That is the purpose.

Mr. Shaetzel: I would agree with what I believe to be the consensus—and if you have not already gotten this you certainly will and that is that it is a highly ineffective body in parliamentary terms. It has ambitions. The treaty calls for direct election of the Parliament. It has limited powers. It has the power of over-kill in that, as you know, it can take an action which would force the resignation of the Commission. That is essentially the wrong target, but, in any event, that is the one real authority it has. Thinking in terms of our democratic institutions, this is a largely powerless body. It does have certain useful functions now and is bound to have more useful functions in the future. As a consequence, it is well worth spending time with them.

The big issue which surrounds this subject among the Europeans is the path that should be taken to achieve a more responsible Parliament within the European construction. It has been referred to as responding to the need for the Community to acquire political legitimacy. At the present time the Community is an undemocratic body. The Commission is an appointed body; the Council of Ministers operates in secrecy, presumably. Actually, their discussions are in secret, but the proceedings are immediately known, so they lose both ways.

There is a frustration in Europe which one can sense. It is just not right to have decisions of such profound consequence in the economic, social and political life of 250 million Europeans made by a process which is manifestly undemocratic. The pressures are such that, in one way or another, they will move in the direction of a more powerful Parliament. The central issue is whether this comes by direct election of the Parliament or by way of the budgetary process or appropriations, which is the normal way that parliaments in the British inspired systems have acquired authority.

It seems to me that the game is very much coming down on the latter side; that is, as Peter Kirk, the imaginative and able head of the British delegation has been proposing to take full advantage of the explicit and implicit powers which the Parliament now has. In other words, "Let's fully use what we have and with that more power will come our way." The process has begun in

connection with the budget of the Community, which over a period of time will see the Parliament acquiring increasing authority in this area. I feel that that is the road down which they will go, with direct election of the Parliament coming later.

The argument against direct election seems to me to be overwhelming. At a time when there is general public doubt—at least in my country, but I think also in Europe—over the whole political process, to have people standing for office for which no one will know what in the world they are standing for or what they are supposed to do, or how it affects the individual, I think would result in having few people going to the polls. This would be a dangerous course and, I gather, one which they will put off for the time being, I think wisely so.

In a sense, your question, your inquiry and your trip come at an interesting time. They are now trying to decide where they should go, what they should do, and what techniques they should apply which will result in greater power and a more democratic institution.

Because you are members of a parliamentary system talking to people who are trying to find a way in a unique political system, now is the time to talk to them and begin to explore with them the type of questions you have just put to me. That is exactly what I had been trying to do and, in a very small way. We got some of our people from the Congress who have been concerned with the legislative problems in the United States, such as Congressman Bolling and Congressman Fraser, to go to Europe where they met with some Europeans who were concerned with the same issues. These discussions took place on the grounds that what is at stake is not merely the Community nor merely the relations between Canada, and the Community or the United States and the Community, but rather what is going to happen in terms of a completely fascinating, intellectual problem and how can a peculiar institution such as the Community gain political legitimacy.

Senator Macnaughton: There are all sorts of questions on economics, trade and goodness knows what, but I think I have utilized enough of the committee's time.

Senator Flynn: I should like some clarification on the last question posed by Senator Macnaughton. The European Parliament groups not only the member countries of the EEC, but, if my memory serves me right, there are 17 countries represented at Strasbourg.

Mr. Schaetzel: No, sir. I think what you are referring to is the Council of Europe, which is a body that also meets in Strasbourg, as the European Parliament does. The European Parliament, now with its nine countries, will have 198 members.

Senator Flynn: It is different from the Council of Europe?

Mr. Schaetzel: It is. It is an understandable source of confusion, since they meet in the same place and have similar titles. The European Parliament has interesting characteristics. I would be astonished if in the next year or two this does not become a most lively body, making a much more important contribution. One aspect, which

is not true of most interparliamentary groups, or any other as far as I know, is that they sit according to parties; they have their normal spectrum going from left to right, or right to left, whichever is your political preference; they are chopped up in that way and begin to have some kind of feeling as political groupings rather than national groupings. This is still somewhat superficial.

There is a piece of literature on this subject. I do not know whether you are familiar with it. I would fix the date at about the summer of 1971, when *Punch* had an article on the European Parliament, which was a mixture of wonderful humour, insight and optimism, something one rarely sees. If your staff could track that down, I would by all means include it in the literature you read, because it is well done and gets information across in a rather painless way, which I am always looking for.

The Chairman: Senator Flynn's question is a very interesting one, and I should like some further clarification or comment from you, which necessarily must be a subjective one. If, in fact, the European Parliament does gain in power and becomes a more operative and effective body, will that be equated by an equivalent decline in the Council of Europe?

Mr. Schaetzel: I think the answer to that is, yes. The Council of Europe is already in decline. The objective evidence, for instance, is that Congressman Hays and some of his colleagues who have been associated most intimately with the North Atlantic Assembly, and have from time to time been drawn into activities of the Council of Europe, have really decided to either cut that out or at least play a very minimal role, which means that their sense of the situation is as I have described it.

Senator Flynn: Would that not be sad? Would you not suggest that if the Council of Europe loses its authority or its importance the result will be a more closed EEC?

Mr. Schaetzel: No, sir. The Council of Europe really came into being upon the initiative of Mr. Churchill in the aftermath of the war, when there was a fluid situation and the feeling, "We have been working together. Let's do something." At that stage in European history I think the Council of Europe was serving a very useful function, and it has continued to serve useful functions in a number of areas. They have a whole series of detailed studies of issues from biology to pollution, and so forth. The point is that they have been overtaken by events; another phenomenon has come along.

The Council of Europe really provided a political choice. You can have the classical co-operation among national states in areas of common interest, or, as the Schuman Plan in 1950 proposed, you go towards the goal of some form of European unity and integration, and the transfer of certain sovereignty in discrete areas to a new institution. The Europeans have elected the latter. Up until last January the British were still staying with the former political conception. The six nations had moved toward the other conception, and finally the British were persuaded; so you now have a clear election

of the course towards some form of integration. That automatically means the decline of the other institution. You can say that it is a pity, but life is made up of this process of change, whereby some things are discharged and others grow.

A Community of nine, with 250 million people going down a certain course, poses problems of a very acute nature for those countries which, for a variety of reasons, choose not to be a part of this process. These are the neutrals primarily; to some extent the Mediterranean countries, which lack the political traditions and institutions that allow them to fit into this machinery. It does seem to me, in philosophical terms, that the fact a new problem is created by change does not mean that you should remain where you were, even if it were possible. However, the Nine clearly elected this other course, and that is why I say, doing nothing beyond reporting a fact, one can envisage the decline of the Council of Europe.

Senator Bélisle: I read your article, Mr. Schaetzel, and I thought it was very good. I noticed that you used the word "adrift," and this morning you said that you felt the world was coming adrift. If these communities are coming adrift, are they coming adrift more amongst themselves than from the Atlantic Community? Is there a reason for drifting apart? Is it not because they are becoming too nationalistic economically? You referred in your article to the farmers and the lobbying the farmers are doing.

Mr. Schaetzel: That is a kind of porcupine question; there are a number of points in it. Let me try to pick them up. What I was getting at in the article, and what I was trying to get at today when I talked about a world adrift, was describing a world which is coming unanchored from the framework that has been laboriously put together, beginning in the immediate post-war period with the Bretton Woods instruments, the International Trade Organization, GATT and so on. I described some of the characteristics of the system. That is the economic area.

I think it is coming adrift in another sense, which is not before us, but I am quite prepared to talk about it. It seemed to me, as one involved in foreign affairs, that the world had certain characteristics, up to fairly recently, in which there was a pre-eminent United States—economically, militarily, being self-confident and assuming responsibilities. I am not here saying whether it was good, bad or indifferent, but it was a fact of international life. There was a certain degree of stability, made up of the trade and payments system, of the role of the United States, which the United States recognized; of a confrontation between the East and the West, on which again I am not expressing any value judgment; it had a kind of clarity to it. This meant that there was something to which everyone could relate: "This is the world; it is the system, it works or does not work, but at least we know it." I would argue, without going into detail, that each of these three elements has now dramatically changed and so there is an uncertainty about where we are, where we are going, who is in charge, where we want to be, what we want to preserve, and what we

want to put in its place. That is what I meant by "a world adrift."

My second point is this. You are absolutely right in your reference to nationalism. I think it is a most extraordinary phenomenon, we live now with a total contradiction. It is a world which is manifestly interdependent economically and in a security sense, yet everyone is behaving as if we were going to march smartly back to the 18th century, which is ludicrous. I have a certain sympathy for the less developed countries which have emerged from colonialism, who want to have a national identity. In many cases in Africa, the totally artificial boundaries are the result of just colonial accidents, nonetheless they have this drive for nationalism. I can understand it. I cannot understand it amongst the advanced countries, but it exists.

Therefore, we live in a world both adrift and in which we face a total anachronism, which is exceedingly difficult for anyone who wants to make sensible policy.

Your third question asks what this means in so far as the Community is concerned. Europe is caught up in the same absurd anachronism. That is, they want a Community and they want all that goes with a Community; on the other hand, nationalism becomes more vigorous. It is not that I have anything other than affection for the young generation, including my daughters. But I would say this, it is like some of the youth now—not all—who want everything that comes with our affluent society. On the other hand they do not want the affluent society nor do they want to try to change the affluent society so that it would not have the defects it now has. This is a little like the situation that exists in Europe; it is an analogy which is very loose but which might be applied to Europe. It might be said that they have certain desires to be able to speak with a single voice. Mr. Heath was eloquent on this during his recent visit to Washington. The summit meeting in October professed all of these various things which the Community should do; but cannot be done without sacrifice, without change. Nationalism is something which has a built-in resistance to change and to the achievement of what they want. This is the problem of the European construction. Something has to give. They are getting to the point where they can no longer have it both ways, and there will have to be some further erosion of nationalism if they wish to achieve their objectives. Now, the objectives can give. In other words, they can end up with a Community which will be something more or less what they have now, which will go on indefinitely—I do not think that it, as such, will fall apart—but they are on a kind of plateau now in which it would be rather difficult to move on to the other objectives they have set for themselves.

Senator Yuzyk: May I ask a supplementary question? We are discussing here the weaknesses within Europe. I think you mentioned in your article that there is such a thing as NATO and the NATO Assembly, and that all or most of these are members. Do you not think that that is still a force that will at least keep them together and also be a bridge for us to better relations and better understanding?

Mr. Schaetzel: Yes, sir, I do. There are two points here: one is, what keeps them together; and the other is, how we keep together with them? NATO and the OECD are a means for keeping together with them. However, their obligations to NATO and the OECD, in which they are represented as national states, really encourages the nationalism we have just been discussing and in a way work against the Community spirit.

Take a problem before the OECD—in the field of energy, for example. The EEC is represented there by officials from the member governments with the Commission in a subordinate capacity; but in a sense the performance of the member states, now nine, in the OECD tends in general to be as though the Community did not exist rather than as if it did exist. That is the anachronism of that activity. Obviously, in NATO the issue is less important, because the Community has no responsibility whatsoever in the strictly defence or military side of NATO. There is an overlap, as one has seen in connection with the preparations for the proposed conference on European security and co-operation, in which there was the problem of the Community, as a community, in preparing a position, then, as a European caucus, in NATO, refining that position, and then as NATO deciding what NATO was going to do. All this suggests, it seems to me, that when the world dies with a whimper, it will be because it has got itself so tangled in bureaucratic tape that it can no longer move; and this certainly seems to be more or less the direction in which the Europeans are moving.

On the other hand, there is just a final point. These institutions—NATO and the OECD—are very important, they are the hopefully strong bridge across the Atlantic, for you and for us, which allows a continuing dialogue to go on, not only among executives but also among parliamentarians. Everything should be done to strengthen this.

The problem of strengthening NATO and the OECD is partly what we do about it. In other words, we have to be serious, we have to make the most effective use of these institutions, because of the responsibility we carry.

The second point is that Europeans have to begin to make sense. What that means, as far as OECD is concerned, which in economic terms is the more important body, is that they have to begin to say, "Yes, we are a Community". In various areas they will not have to have the Community representative sitting behind them, on a lower chair, but have him up there as the spokesman on those areas in which the Community has responsibility. As I say, this takes an act of statesmanship and vision, of which they have not shown much evidence yet.

The NATO matter is in the future; dependent on what the Community does in the field of defence. I think they will get into the defence business. I do not think it will come immediately, but it will begin before long. This will continue to pose problems. The European caucus of NATO has been really quite successful, more successful than most people thought. It should be encouraged by you and by us, and not looked upon as creating a group within a group and, therefore, being a very bad thing. It

should be looked upon as a part of a developing Europe, and we should not be apprehensive about it but recognize that NATO itself is flexible, it is a commitment and the institutions are a means to an end. The end is what is set forth in the Treaty and our mutual security interests, and not the organization.

Senator Yuzyk: The only other thing that I would add to this is that the North Atlantic Assembly last November did deal with this problem. Most of the European countries were concerned about it. I think that the fact that the headquarters of NATO is in Brussels means that we can have close relations, and we are in a position to work out some of our problems. Certainly, we did discuss the fact that the United States and Canada are on one side of the ocean, and that ocean does not necessarily mean that there is a gap between us, but that we have to work for common aims, economic aims as well as social and cultural aims.

Mr. Schaetzel: I agree, sir.

Senator Bélisle: Mr. Chairman, when the Treaty of Rome was formulated, one of the long-term political aims was political federation, but it seems to me now that they are backing away from that. In visiting Europe now it seems that they are becoming more nationalistic and less objective with that aim. Is that your opinion?

Mr. Schaetzel: Yes, sir. I think that is true, and to try to understand why it is so, what it means, and where it is all going in the future, is a task that many of us have set for ourselves and are trying to understand. I am trying to write about it, and it is not easy.

Really, one can come out in many different ways on this. On the one hand, it is possible to be dismayed by the extent to which the enthusiasm has lagged, and the fact that they seem to be moving, as your question suggests, more in the direction of the preservation of nationalistic interests. One can say that this is the harbinger of the future and that whatever the dream was it was a false one and is not to be realized.

But there are other views. I think Monnet would certainly take the view, as the father of the European movement, that these are things which move very slowly.

Just before I left Europe I was talking to a number of my friends, people with whom I have worked on these matters for 15 or 20 years. They make the point, which is very important, that this is a process in which you have about a hundred years' scale at least. We are not talking just about tomorrow, the next decade or the decade after that; but of a vision; of a very long-term process.

Another point I should like to make is that in something as historic as this—and it truly is historic, because there has been nothing in the last hundred years which has been as politically innovative as what the Europeans are trying to do—this is intellectually a terribly difficult task, and some of the difficulties they are encountering are difficulties which should have been anticipated. It is very easy to talk about supranationality in a community and European unity, if you are just talking; but once you get down to the realities of it, that

is a different matter. They have now gone through the easy phase, which is the elimination of barriers, particularly in the field of the movement of goods and services; but once they begin to get to the creative stage, which is financial and economic unity, or try to do things in regionalism or social policy and on to that, then that gets very serious indeed and that means that you are cutting into the political and economic life of the member states. Anyone who is at all informed—as you people certainly are—with the political process, knows that once you get beyond the stage of rhetoric, you then run into real obstacles which are very hard to overcome; and that is where they are today. The big question is not, I think, so much that this resistance exists or that the nationalism exists; it is whether there is going to be enough political will and enough momentum in this movement in Europe so that these barriers can be overcome one by one, not immediately but in a continuing process.

Frankly, I happen to be somewhat optimistic about this. They have survived a crisis. I have argued that they have really survived a ten-year internecine war. The point of departure of that war was the veto of the British entry in January, 1963. If you like, the end of it was January, 1973, when the British came in. Now, the Europeans really were fighting an internal and essentially unproductive war over whether the British should or should not be in and what kind of Community it should be. It was really a Gaullist war.

That, for the moment, is out of the way. They still have all kinds of problems, a number of which your question has suggested, but in my uninhibited optimism it seems to me that the fact that the British are in will mean a release of energies for them. At least, I think that many of the British, although not all of them, will see this as a release of the energies which have been dying in Britain since the end of World War I, which I think has been a tragedy for the world because of what the British have done and can do.

The other point is the sheer ventilation of the Community which occurs when new members come in. Any bureaucracy suffers from just sitting. I came out of a bureaucracy, and I think they have to be shaken up periodically. This bureaucracy, which they have had now for 15 years, is going through a traumatic change because of the entrance of new members, because of new people on staff and in the Community; as a result they are now being shaken up by this process. So it is a period of great movement, and that is why I stressed in my opening remarks the importance of this period when the Community has to find itself. In finding itself it may very well overcome some of these hurdles which you identified in your question.

The October summit was an interesting meeting because it laid down a remarkable agenda of work for the Community institutions and established the most severe deadlines, according to which half of the agenda is supposed to have been disposed of by July 1 and the other half by the end of the year. This agenda is being taken very seriously by the Commission, and I would as-

sume by the member states, but whether they meet all of these deadlines is a different question.

However, in sum, I would say that you are right. The political dream, the idea of a federated supranational Europe which would be here tomorrow—which President Kennedy thought he saw on July 4, 1962—that obviously is not here, and there is no prospect that that is going to be here soon. It is a longer process; it is a less dramatic process; the problems are more severe. At the same time, I would submit that there is a kind of glacial force about this which is moving it along and may very well be moving the people in it along despite what they want to do.

Senator Bélisle: Thank you.

The Chairman: In the interests of equal time, we will move along to the other questioners. Senator Grosart.

Senator Grosart: Thank you, Mr. Chairman.

Mr. Schaetzel, you have given us some excellent advice on how to go about getting what we want from the EEC. Our trouble seems to be that we don't know what we want. Could you give us some advice on that? It is sometimes said that we are perhaps the only industrialized country in the world at our level—Australia might be another—which does not have some kind of preferential access to a market of a population of 100 million. Should we be seeking some kind of overall, formal relationship with this particular trading bloc known as the EEC, or should we continue to nibble away at our problems on an *ad hoc* basis?

Mr. Schaetzel: Well, I anticipated that question from the proceedings here before, sir, and that is an easy one to answer. You should not seek a special relationship, and even if you did, you would not get it. Do you want more?

Senator Grosart: Yes, more on both "why not's".

Mr. Schaetzel: Well, first on why you should not want it. It seems to me—and I am no expert on the Canadian economy—that if any one country has a built-in interest in a truly multilateral system, Canada does. This, I think, is what Mr. Rogers pointed out in his excellent testimony. The markets which are really important, whether you like it or not, are the United States on the one hand and Japan. Neither will have any special association with the EEC. So that I would say that a forecast of your national economic interests suggests that you have perhaps the most profound interest in the preservation of a multilateral system which is under such pressure now. Perhaps if this collapses we will have a different world, and then we can come back and discuss this at another hearing.

Senator Grosart: Has it not collapsed?

Mr. Schaetzel: It has not, but I say that if it does—and, as I suggested earlier, I am apprehensive about the direction in which we are moving—then we can come back and hang this room in black and discuss the alternatives. Maybe we will live in a world of special arrange-

ments with one another, but I do not like to contemplate it, and I am not prepared to, I think, yet.

Senator Grosart: But, surely, that is what we have? We have 60 nations with special bilateral relationships with one another through the EEC. I agree we have this stake in multilateralism, but where do we wind up if everybody else is going bilateral?

Mr. Schaetzel: Well, let us get the thing sorted out. First of all, you have the nine states, and that really is a movement towards unity which is not only accepted under the GATT. They are moving towards unity and they are behaving as a unit and no one of us can object to that phenomenon.

Now, for the others states, the neutrals, which have negotiated their arrangements with the Community, this again, in my view, will meet the test of the GATT as a free trade area. Agriculture is excluded. Even in the analysis made in our Department of Commerce—which is not inclined to be the most friendly of institutions in looking upon American relationships with the Community—it is unable, in looking ahead five years, to make a projection that there is going to be a great cost to us, and they talk in terms of \$200 million. \$200 million is almost a statistical error when you make that kind of forecast, given the volume of trade.

For the rest of these countries, which are basically among the most deprived and the poorest among the less developed countries—particularly in Africa and some of the Commonwealth countries in the Caribbean and elsewhere—this becomes a philosophical problem, a problem of policy and not a problem of economic reality. Neither you nor we are really going to suffer much from these arrangements. Furthermore, in the generalized preference scheme which the Community has worked out in manufactured goods for the less developed countries—and down that path when we are able to do the same—we can eliminate the discriminatory aspects of most of these arrangements. Therefore, what is one left with in terms of a practical problem? It should be broken down into two parts. The first is: What is the economic problem? And the second is: What is the philosophical and theoretical trade policy problem? I think both are important.

On the economic side, I really do not see any of us being much damaged by what they have done. The free trade arrangements with the neutrals, on our analysis, do not seem to be doing us all that much harm. In fact, so far as Africa is concerned, our trade with the African states has gone up more than has that of the Community, so we cannot make an economic case there at all. The Mediterranean situation is a little more difficult because there we have had citrus problems, and we will continue to have those with Spain and with Israel, and to a lesser degree with Turkey and Cyprus; but I think these are special areas.

I indicated that this issue has been blown up. We have \$20 million worth of trade in citrus products with the Community, so we are arguing about \$2 million and this is \$2 million as against \$9 billion. So what are we taking about?

Perspective here is of some importance. I think it can be put in perspective, and the central point is the one I referred to earlier when I was asked by Senator Macnaughton about what you should do when you get to Brussels. I think you can fairly ask, "What kind of system do you want?" This problem which we are now discussing, and which is a theoretical question of foreign economic policy, of the system, is the one which is doing the greatest damage in the United States on the part of the Community. They are feeding the fires of protectionism among everyone, among liberals and the protectionists, this building of a new empire system encompassing 60 or 70 countries, depending on how you do your sums. The Community insensitivity to this import, and the implications of their policy for people in my country, the ones who are trying to fight the battle for good policy, could not be more serious.

During the visit of the Ways and Means Committee to Brussels a year ago, this was by far the most important issue that came out of the four days' discussion. Agriculture and everything else paled in comparison. The real problem was: Where are you going? What are you trying to do? And how do you repair the damage being done to the system, the undermining of multilateralism and the most favoured nation clause? It is the apparent indifference to the policy issue and the failure to suggest an alternative and the insensitivity to the impact of this which has been extremely serious and promises to be more so.

Senator Grosart: Where would you see us on MFN vis-à-vis the Community?

Mr. Schaetzel: I think one of the horrors of this whole thing, and it has a kind of Kafka-esque quality to it, is that your relations and our relations and our conversation now indicate the degree to which we are talking about entirely the wrong issues. We are talking about tariffs at a time when tariffs are becoming of less and less importance in the whole gamut of economic relations which either bind us together or bring us into conflict with one another.

The sentiment in my own country vis-à-vis the Community is hostile in large part because of the tariff issue—with the preferential arrangement and agricultural policy certainly entering in—but trade issue is the heart of the matter and that is setting the whole tone of our relationship. Yet there are many other matters which now are, and in the future will be, of infinitely greater importance. Quite clearly, one issue is the whole field of non-tariff barriers, the other devices countries use to interfere with the efficient movement of goods and services. Another question is this: What kind of monetary system do we want to put together? Are we going to move towards control of capital movements? Are we going to encourage or discourage investment? What is the role of the multinational corporation, which is a new phenomenon of the last 10 to 20 years? What are we going to do about energy and about pollution? What are we going to do in relation to the less developed countries? And, finally and most important from our standpoint—and I submit that it is from Canada's too—

is the whole question of international investment. What kind of investments? What returns on investment? What will be the climate for investment? Unfortunately, we are being skewered on this tariff issue, and the tragedy of this, to me, is that it is the wrong issue and it shows every sign of being handled badly. If it is handled badly, it is going to be impossible to deal sensibly with the other issues.

This is one of the few areas in the field of foreign economic policy in which it seems to me that you could get together a number of reasonably responsible Americans, Europeans and Canadians, and they would not have much difficulty in saying what the answer is.

Now, saying what the answer is does not mean we are going to get it. The answer to this problem of preferences vis-à-vis the less developed countries and the developed countries is soluble by two courses of action which, in our own self-interest, we ought to pursue. One is a generalized preference scheme with safeguards that would open all of our markets to less developed countries who must be able to sell labour-intensive goods. The other is to work in the direction of industrialized free trade in 10, 15 or 20 years—I do not care how many years—but at least you have an objective. If we were to agree on an objective of eliminating this particular barrier in both areas, then the problem is solved, and it is solved as an issue because then the good guys can go against the hostile guys and say, "Sure, we have a problem now, but we are on a road along which the problem will be solved in 10 or 15 years." So this kills off the essentially irrelevant, but nasty and destructive argument. If you ask me, "Do you think we are going to do that?" speaking for the United States, I would say at the present moment, "No."

Senator Grosart: Surely, there is a contradiction here? You say, on the one hand, that our interest is in freer multilateral international trade. So, we have to be worried about barriers because that is what the argument is all about. I do not care whether they are tariff or non-tariff; one is a substitute for the other. We have made some studies of this recently, and this is the conclusion to which we come. If a nation cannot achieve these restrictions on inflow of trade by formal tariff it does so by a non-tariff barrier.

Since 1961 Canada has been losing its share of the EEC market. We have put it down to the fact that the EEC has raised the tariff all around in certain European markets. So we have to be worried about it. It is a nasty argument. But of course, it is a nasty argument when you wind up fighting a war. All arguments are nasty. But, surely, this does not mean we should not be engaged in the argument?

Mr. Schaetzel: I did not make myself clear. In the whole range of foreign economic issues, I was trying to get the tariff issue in some perspective. I am not saying we should not do something about it; but this is not the totality of our problem, by any means.

Senator Grosart: That is right, but we are trying to zero in on the problems regarding this market.

Mr. Schaetzel: That is correct. As far as the Community is concerned, by almost any measurement which has been made by the OECD or by our Department of Commerce, they have the lowest level of tariff protection of any of the major entities—which includes the United States, Japan, and certainly Canada.

Senator Grosart: In some categories.

Mr. Schaetzel: I am talking about non-agricultural protection in the tariff area.

They also have a tariff structure which, by sheer accident, happens to be fairly benign in that it has very few peaks and valleys. The reason is very simple. When the Treaty of Rome came into being they had to average the tariffs, which meant they had to smooth it out. They ended up with a structure which, in economic terms and in which an economist looking at the peculiar form would say: "It is not a bad structure at all," as contrasted to the United States which has some very high tariffs and, obviously, some very low tariffs. So, their level of protection is $7\frac{1}{2}$ to 8 per cent, and it does not have peaks and valleys.

In the area of agriculture it is very different. I submit, and many Europeans feel they have a very bad agricultural policy. It is an aggregate of six bad agricultural policies. It is political in its origin, and it is perpetuated for political reasons. Many Europeans feel there are internal forces in Europe which are going to modify this policy, not because of what you do, or what we do, or what we want; but they have to change it for their own sake because it is too bloody expensive. It is hard on the consumer, and it is increasingly expensive for countries which need many resources for other purposes. To put out \$5 or \$6 billion a year on an expensive system which also places, through high prices, an enormous charge on the consumer, which over a period of time, becomes intolerable. So they will have to change their system, but it will come about only over a period of time.

What does one do about this? You say that your trade has fallen off. As I read the testimony from your experts—and I am not one—I am struck by the fact that a number of them have said there are opportunities, and there are things that ought to be done because of Canadian deficiencies, or the failure to follow up; and this cannot be laid at the doorstep of the Europeans.

I say to you the same thing I said in my own country—and I was struck by the essentially constructive, objective analysis by this committee and by the people with whom you talked: Look at yourselves rather than looking exclusively at the Europeans. You have done this much better than we have. We are caught up in a trauma in which everyone else is responsible for our problems. There are only a few people who look at it differently. One was Peter Peterson—and you know what happened to him! Perhaps there is something wrong with what we are doing. I have a suspicion, and it is totally un-American, that this is true.

I think all of us have some responsibility not to hold the Europeans responsible for all of our problems; for some of which they are responsible, but for many of

which we are responsible because of what we are not doing.

Senator Grosart: You are quite right; we have looked at this. It is a bit like sex today: it has become a spectator sport, and we are not getting into bed with the problems.

If we are not to be greatly concerned about the tariff or non-tariff situation, if we are not to seek a formal relationship, what are we looking for, or what should we be looking for?

Mr. Schaetzel: It seems to me that it is of the utmost importance to do several things. Your question helps to bring some of the threads together. One is to try to increase the Community's sensitivity to its international obligations. It is big. It has been referred to as a dinosaur with an enormous body but a very small brain. Therefore, I think it is a question of keeping the pressure on and keeping them aware of the impact of what they do or do not do. Obviously, one way is to move to international negotiations, accelerated negotiations, and in the financial area, to move as quickly as we can to international negotiations for the further reduction of tariff and agricultural restrictions and non-tariff barriers. Once again, the problem may be more with the United States than the Community or Canada. But nevertheless, that is the direction in which we should move. It seems to me that the fundamental answer is to seek every opportunity for further liberalization in every area. For instance, take the tangential question of environmental measures. Our responsible person, Mr. Russell Train, has made every effort to keep in touch with the Community. We are only just now moving into this area, and we are feeling our way. We do not know what the policies ought to be. Let us try to adopt policies which will not put up additional barriers to international trade. Let us try to adopt the same standards in an endeavour to handle this issue in a way which will give us liberal rather than protective results. This seems to me to be very sensible: In many of these other areas, whether environment, energy, or through the gamut of these, we continually have a choice of whether we will give a further push toward nationalism and protectionism, or move toward a liberal solution.

I repeat, one of the points that is so interesting to me in relation to the Canadian situation is that you can afford to be in the forefront of liberalizing, while looking out for your own interests. This is a nice position in which to be, because many others have to do it as a kind of act of religious faith. That is one of the problems in the United States, that we are so minimally involved in international trade that we can afford to be extremely stupid and reckless, yet we are so big that we can do enormous damage to the system. As I say, you are in a different position; your interests and good sense happen to run together and I bless you for it.

Senator Grosart: So you are saying that we should remain as an outside suppliant, which is what we are.

Mr. Schaetzel: I would say: Do your thing; try to continue this trend in Canadian policy, which is to push all possible levers in the direction of the further liberaliza-

tion of international economic relations and the strengthening of the institution. It seems to me that that is what you have done in the past. It is in your self-interest to do it, and I think you should continue.

I did not elaborate on the second part of your question. You probably wish I had stopped when I had just given you a yes or no answer.

Senator Grosart: Not at all, because you are coming around to exactly what I expected you would.

Mr. Schaezel: I said that even if you decided to seek a special relationship, you would not achieve it, and I am convinced that you would not be able to negotiate it, so you would spend a certain amount of effort in a pointless exercise.

First, the treaty, as you know, does not permit you to become a member of the Community. If you were to seek some preferential arrangement, your primary interest being in agriculture, I cannot see how that would work. To have such an arrangement would tear the bottom out of their agricultural policy, which they are not about to do. I do not believe they would do it in the industrial area, because your tariffs are considerably higher than theirs. They have a thing on reciprocity, and I see no sign whatsoever that they would give that up. Finally, with regard to, not merely your relations with us, but their relations with us, they would be out of their minds to go down that road and further inflame their relations with the United States, which already are not a model of international decorum.

Senator Carter: I would like to follow up the question raised by Senator Belisle with regard to the world going adrift and the institutions upon which we have relied for so long coming unstuck. I believe Mr. Schaezel himself spoke of those who desire the benefit of affluence, but not the affluence which produces the benefit. Before we go to Brussels and ask where they want to go and what they wish to do and so forth, should we not ask ourselves that question and come to some conclusions? Just asking the question implies that we have made up our minds and wish to carry on in the same old comfortable way, finding devices that will justify the impact on others. Surely, we really need a total new philosophy, one that is worked out in the world context, rather than in that of the United States, the Economic Community, Russia and Japan—which, after all, have a population of less than one billion, probably only 20 per cent of the world's population. Should this 20 per cent continue exhausting 80 per cent of the world's energy resources and fouling up the atmosphere? This must come to a halt sooner or later and, in my opinion, probably sooner, within 10 or 20 years. In addition to that, the type of system which we now have within the borders of Canada involves the lowest 20 per cent of the population having 6 per cent of the wealth while the upper 20 per cent has 38 to 40 per cent. The figures are more or less identical for the United States. We are therefore perpetuating this gap and, on the world scene, perpetuating it between the "have" nations and the "have-nots." Should

we not, first of all, come to some conclusions with regard to the mess we are in and what we are prepared to do, before we go over there and ask them what they are going to do?

Mr. Schaezel: I find your question very congenial, because it expresses very well my concerns, both in terms of this widening gap between the poor and the rich, which is not merely a moral question. It seems to me it is a situation that is inherently unstable, in view of the increasing demand for raw materials and energy. I do not see how we can live with that dichotomy. I agree with you that we ought to know the kind of world we wish to live in. I was hoping to suggest earlier that it seemed to me that we all of us in the Western world, are now faced with a very gross choice. That is, we can go down a road which we began to go down, which was to create a system of rule of law in international affairs and in which we had made some progress in the economic area but not much elsewhere; or we could revert to a form of anarchy. In my opinion a five-power balance of power system, which has been suggested by President Nixon and Mr. Kissinger, while I do not know what it means or what they intend it to mean, nevertheless I find completely contrary to the first formula.

In short, it is a question of whether we wish to have a world built on accepted rules. This would involve something else, a procedure for determining the facts.

Allow me to add a footnote to that. I refer to the visit of the Ways and Means Committee to Brussels, because it is probably our most important Congressional committee, as you know, and it was the first time it had ever been out of the United States. I believe they shared some of the same concerns as you with regard to whether travel is recreational or serious. Therefore, they were nervous about going, but I have not the slightest doubt as to the value of the trip for them and for the Europeans. The point of this footnote is that one of the feelings they came away with was that it was almost impossible to agree as to the facts—the impact of the border tax, for instance, as a non-tariff barrier, and what was actually happening in terms of the flow of trade. In other words, at each juncture it was not only a question of arguing about a situation in which each agreed on the issue; they did not even agree on the facts themselves. There must be, therefore, a system for identifying the facts, which each side agrees to accept as part of any process of mediation or arbitration of disputes. We must also increasingly codify the trade laws. The Community argues that the Mediterranean agreements, are consistent with the provisions of the GATT and, if this ultimately comes to a vote in that body, they have the votes to put it through. This is one way to destroy the institution which they profess to admire, by bending the interpretation of its provisions to the extent that they become totally meaningless. We are also guilty of this and, I suppose, everyone is. There is always a "Philadelphia lawyer" to be hired to help with a case. In any event, we not only need to improve this system of trade law, but must have a sense that the law is important to our national interest, which means strengthening the institutions as well.

Neither the IMF nor the GATT has been strengthened by recent events. They have been eroded by recent events; and I think one has to go back and take a look at that.

You have asked a question which I shall answer—I hope it is the course which Canada will follow. It is the direction in which I would hope the United States would go, but I think it is tending to go in the other direction. That is, to try to select areas which are not the most sensitive; in which there is a secondary or tertiary political and economic national interest, and to say, "This is something we will put into the international hopper. We will be guided by the system; we will agree on the rules; we will be bound by a decision which is made on a democratic basis." It would be a strengthening process, to move in that direction. But, as I say, it cannot be done on the most vital interests. We are just not at that stage. Nationalism is too strong. Interest groups in Canada and elsewhere are too strong.

You are certainly right. Unless you are going to engage in an almost rapporteurial function of just asking questions to get answers, it is obviously useful, in carrying on a discussion with the Community, to have some notions of where you want to come out, without obviously trying to impose these views on them. There should be a conceptual framework against which you can carry out your inquiry.

Senator Carter: The balance of trade is very important because it affects our monetary system, our rates of exchange, and so on. Can we hope to get out of this bind as long as we are worshipping the gross national product as our economic be-all and end-all of existence? Can we have both? Can we not forsake one? Can we have it as long as we insist that our main objective in Europe, in the United States and Japan is to get a bigger and better GNP?

Mr. Schaezel: The Club of Rome started this ball rolling. I think a useful function has been performed, without necessarily agreeing with the analyses or conclusions. Nonetheless, they are now bringing to the fore a discussion in which we all should engage, both within our countries and among ourselves, as to where are we going, whether we have been essentially sacrificing ourselves and future generations on the altar of just economic growth.

Sicco Mansholt, who is a great European and most recently the president of the Commission—he has just resigned—was obsessed by the Club of Rome and by the question you have just raised. Initially, he was interested in zero growth. I think subsequently, in the refinement of this—I do not want to speak for him—my sense of the evolution of his thinking was to begin to emphasize the question of quality.

I would have hoped that what we were struggling for was a mixture of continued growth, which we must have because of needs and aspirations and growing population, with a greater emphasis on quality. That is really a guess about what the emphasis on environment is all about. We are no longer just content with a chem-

ical plant which will create a certain margin of profit, but a chemical plant located—Where? What are its emissions? What is the product? What is the waste quality of the product? And so forth. This is obviously introducing quality into quantity and profit.

It is absolutely astonishing for me to think back. I was born in California, and one of my grandfather's close friends was John Muir, who was the man responsible for beginning the park system and who is referred to as being the great naturalist of American history. One can think of the years during which the Sierra Club and the Audubon Society worked on this whole issue; and then all of a sudden it exploded. Suddenly within a few years, the environment has become something which no one can stand up against, whether it is the executive branch or the Congress or the business community. This, to me, indicates that there is a profound change going on, at least in the United States, in a very unthoughtful way but moving towards quality as contrasted with quantity. The young people, God bless them, are in the forefront of this.

Senator Cameron: Mr. Chairman, arising out of Senator Carter's question about the GNP and the work of the club of Rome, I think probably it is in this area that some of these answers will be found. It is a matter of interest that some of us tomorrow morning will be meeting with representatives of the club of Rome on the OECD, right here. So I think that is one of the profitable areas to be explored. My first question is: Early in your very fine presentation you said that when governments find things getting out of hand, they are not very effective at putting them back together again. If governments are not going to do it, who is going to do it?

Mr. Schaezel: The thrust of that particular observation, senator, is to try to avoid letting things get out of hand, because if I had confidence in governments being able to get at the situation when it was rapidly going down the slope, I would be a little less worried about its happening. Therefore, this was really aimed at trying to get at things before they reach that stage.

The answer to your question as to how, if they do get out of control, you control it again, I would despair of, because if you had very strong international institutions, they might play a role; but you do not have them. To be very personal, and to make a general observation, I do not think that history—or, at least, our particular period of history—is blessed by the most impressive group of political leaders that the West has ever had. In any event, you do not see around those kinds of towering figures we fortunately had during the war and post-war period who were able to move in, who made remarkable decisions and carried the public with them.

I just happened to be reading again a book written by a man named Jones, who, in recounting the critical period of the Marshall Plan, points out, as I think we know, in the immediate aftermath of President Truman's death, the unbelievable courage of this man who saw a situation and threw out an idea, and who, against overwhelming opposition, carried the day. I do not see around

people of courage, of political skill, of vision and willingness to try to lead; and, therefore, I am worried by the leadership factor.

The third thing that worries me, which is rather different, is that rightly or wrongly in the war and post-war period of the world seemed, but perhaps was not, a lot simpler. The tasks that we had, of recovery, of economic development, of confrontation between the monolithic communistic world and the West involved rather simple problems and presented somewhat simple solutions.

The revisionist historians say we were wrong, we did not understand the problem, we did the wrong thing, and so forth. In that regard I say: Thank God they were not in charge. It seems to me that if you analyze the problem and do something about it, that, in an imperfect world, is about the only way you can sensibly behave. We are in this situation, as I described earlier, of almost infinite complexity which has created another problem—a problem with which you gentlemen are more familiar than I—that of the extent to which the public in general is repelled by complexity. A congressman friend of mine sent out a questionnaire to his constituents with respect to various issues on which he wanted their advice. He made it quite clear that he would not be bound by that advice. The response that he got was: "Take your questionnaire away! I sent you there to handle those problems, not to bother me with them. I have enough bothering me now."

People are simply overwhelmed now, because of the means of communication, with problems running from the household on through to the international scene. So all of these come one on top of the other. This leads me, as a person who came out of the interstices of a bureaucracy, to say that I do not want to run the risk of having problems get out of hand, I am very apprehensive, from my experience, of anyone or any institution being able to put it right again.

Senator Cameron: Just two questions. You made a remark that there is almost evidence of collusion between the United States and the EEC against Japan. Yesterday Prime Minister Tanaka made a statement that he was very worried about what has happened recently and its effect on Japan. The devaluation of the U.S. dollar by 10 per cent and the upward revaluation of the yen by 16 per cent, in effect overnight, imposes a 26 per cent barrier against Japanese exports. This seems to me to be the kind of explosive issue that is on the verge of getting out of hand. Japan is certainly not going to sit under that. We little people in Canada are almost facing the same thing in our negotiations with the United States, vis-à-vis a number of issues. What is likely to happen in this area?

Mr. Schaetzel: This worries me exceedingly. I am not an expert on Japan. I have been identified with Europe. However, I was sufficiently interested in it that I asked my department to send me to Japan, and I did go there a little over a year ago. I felt that I could not do what I was doing, or at least what I was supposed to be doing, with any confidence at all without having some further understanding of that aspect of the equation. There is

no doubt that the manner in which—again speaking as a private citizen—we have handled our relations with Japan has been deplorable. It is not because the number of things Japan has done have not created incredible problems for us and for Europe, nor, I gather, to some extent for you. However, that is not an excuse for the situation in which we now find ourselves. I am greatly concerned by the disinterest of the Europeans in Japan. It is almost total disinterest. I was at a Bildeberg meeting last March at which all of the American delegates tried to inject the Japanese issue into the conversation and almost without exception the European reaction was akin to the way in which you pat a small child on the head at a party with the hope he will soon go away and not bother you any more—"Yes, I know," sort of thing. There is a lack of any engagement in this issue. The attitude is: "It is not our problem. Japan is a long way off. On top of that comes fear and apprehension. If you put ignorance together with fear you really have a witch's brew. One sees now the near hysteria with Phillips and the Dutch in terms of some of the electronic goods coming into the European market. There has been a very rapid statistical increase in the flow of goods. However, statistics can lie; they start from such a low base.

What I meant by my remark is that in addition to this: given the American problem with the Japanese and the really fantastic trade deficit that we have—of \$4 billion, together with European ignorance and apprehension, without doing any more than judging the situation from a distance—I am not speaking from any private information—this is the raw material from which collusion can take place. It is the type of situation in which we say, "Let's get together and work out something which will bring the Japanese problem under control"—and it does not really make any difference whether or not you do this; it is whether the Japanese think you are doing this in light of the situation just described—then you run the high risk of worsening a political problem which is already severe, and which seems to me to threaten all of our interests in the Pacific and on the world level.

Senator Cameron: I was just using that as an illustration as to how it has blown up. We have problems galore, and we are going to have more.

My final question is probably quite a simplistic one. I am a great believer in what I call the inventory system. In other words, you look at a problem, list the pros and cons and the potentialities. I am sure this must have been done in the EEC. Somebody made an inventory of the goods which are in exchange between the countries; someone else made an inventory of the tariff and non-tariff barriers, and so forth; and we get this total picture. You illustrated it by showing how a small deficit of \$2 million in your citrus fruit trade against a \$9 billion trade program can distort the whole picture. Does this suggest that one of the answers for the EEC and world trade would be the creation, to begin with, of an EEC equalization fund, ultimately to be a world equalization fund, to adjust some of these things that would be very

hard to sell to the people back home but which could be met if they were compensated, whether they be citrus growers, wheat growers or hog producers, up to a point, from some international equalization fund? Is this too simplistic an approach to this problem?

Mr. Schaetzel: I see what you are getting at. I am somewhat daunted as to how one would do it. I would try to extract from your question a suggestion, a philosophy, an approach. It seems to me that the demand placed on all of us—the Community, the United States, Canada, and, particularly, Japan—is to try to see the problem whole. One of the difficulties with Japan, for instance, is the extent to which they make a minimal contribution to the defence area. The United States defence contribution to their security is significant. This puts salt on all of these economic wounds as far as the United States is concerned. The Community, to take another case, in its effort to see the problem whole, is much more responsible vis-à-vis the less developed countries than we are. I thought a bit about drawing up some kind of balance sheet in which you take politics, psychology, defence, economic factors, and so forth, to see where you are standing. This, first, could give a perspective. Once you begin to get perspective, then, it seems to me, you could ask: How do you react to other people's very sensitive problems? There is an almost total absence of any generosity of spirit now. If you contrast this situation with the post-war period, you will see a striking change. There is a narrowness, a nastiness about international relations which is exceedingly discouraging.

If you had a balance sheet and a state of mind, for which you would not keep close, daily-entry books, then one country could come and say: "We have a horrible problem with the citrus lobby; it is very active and it is very important. There is not much trade. Can't you do something?" What the Community did in this area was really quite generous. It dealt with about 80 or 85 per cent of the problem. However, it was as though one was going to the dentist once a week for months in which the pain of getting that tooth temporarily fixed was really much worse than finally having it fixed properly.

There are some things which ought to be responsive to quiet diplomacy, when we have enough confidence to say, "We have this issue. Is there anything we can do about it?" If you begin a process of solving problems rather than worsening them—which is basically what we are now doing, or dramatizing them—and then put on top of that something that has been implicit in our discussion but which I should like to make explicit, which is to search for areas of co-operation, you can change the tone of international affairs; this can be done if you begin to put some emphasis on those things in which you are working together rather than always turning the spotlight on those things which are going wrong, and which will always go wrong. I would say what you are suggesting is the right conceptual approach, but I think it has to be less mechanistic.

Senator Rattenbury: I had three questions, but Mr. Schaetzel has already answered most of what I wanted

to put to him, because his remarks have been very far-ranging. There is one question to which I would like an answer. A few years ago I was a member of a parliamentary group which stopped off in Brussels en route to Amsterdam. We were briefed by permanent officials of the EEC, which we found most interesting. I was struck with the number of times I listened, privately in social conversation rather than officially, to officials saying what a great thing it would be if the United Kingdom became a member of the EEC. The reasons given did not refer so much to trade as to the expertise that would come with the entry of the United Kingdom, and the fact that it would bring within the Community an international currency of a stature that was needed. Do you agree with those remarks?

Mr. Schaetzel: I do indeed. I think the British have this enormous talent for government. If one might employ a loose metaphor, they are less the inspired Gothic architects than they are the skilled craftsmen. Their whole development from the year 800, I suppose, has been a highly pragmatic response to situation. This has been a process not without conflict, but substantially without the kinds of civil wars that have marked other societies. It seems to me this is a special talent. The way in which their civil service operates, the relationship between the civil service and the politicians, the civility about the country and the way they go about things, all lead me to think, as I have thought for a very long time—and this view is shared by many Europeans—that have an intellectual contribution that grows out of the people as such and their experience, which is precisely what the Community needs.

As I suggested before, this is a political experiment; they are trying to do something nobody has done. Mr. Heath said in one of his speeches in Washington that it is not going to be a United States of Europe, because it is not modelled on the United States' experience, any more than our experience was modelled on anybody else's. They are really ploughing an entirely new furrow, and it is in that sort of way that I think the British can make an important contribution.

Quite apart from that level, how do you make it work in practice? One of the major points of the October summit was the realization by the heads of government that it does not work very well, and they said, "This is one of the major problems. We have got to have recommendations on how to make it more efficient." In many cases they are prevented from doing what they want to do because they cannot make the machinery work. Man, with all his deficiencies, ought to be just good enough to solve this kind of problem. It is an area in which I think the British can make a real contribution.

The second part of the question relates to their financial role. I talked to my European friends, a number of whom happen to live in England, when I was there in November. I wanted to find out more about what was going on in the country, which obviously confronts many difficult economic, social and internal problems and then, Ulster. What they all refer to is the efficiency of The Street, the whole field of financial and other related international services. They play here from strength, and

it is a contribution the British ought to be able to make to the Community's further development, and one which I trust they will make.

Each member really ought to do what it can within this remarkably interesting and complex Community. The problems England faces are clear to all of us. They must deal with a number of incredibly difficult internal matters to get a sufficiently strong base to make their maximum contribution to Europe. Even the political workmanship task is one in which, to some extent, is minimized by the weakness that now unfortunately curses the country. I am optimistic enough to think they will come out of this.

Senator Lapointe: What was the reaction at the highest level after publication of your article in *Fortune*; and could you have written the article if you had not been retired?

Mr. Schaetzel: That is a very good question. The answer to the last part of the question is "No," at least unless I wanted to be immediately "retired," when the answer could have been "Yes". The answer to the first part of the question is a little hard. I talked to the editors of *Fortune* to find out what reactions they had got, and they had gotten a great deal of interest from it, almost all favourable. They said the only critical comments were from people who were picking up pieces of it. I do not think it is the favourite reading material of some of my ex-colleagues in the government, but that is not what I was trying to do. What I was trying to do in the article, as I am sure you appreciate, was to introduce a slight shock treatment. I was trying to generate interest, trying to get people to think about the problem in a slightly different way, rather than write a sophisticated article. It started out being twice as long as it is, and was cut back. The purpose was to get at a particular group, really businessmen, to try to get at what I thought their interests were, to get them to think about a much larger issue, which you people are here to address yourselves to.

Senator Lapointe: Were Mr. Nixon and Mr. Kissinger a little ruffled by your saying they did not know much about the Common Market? Did you hear from them?

Mr. Schaetzel: There is no question as to the degree of ignorance about the European Community in the United States. It is almost total. I have had many humorous experiences on this by which, if I were subject to extreme personal humiliation, I would be submerged by now.

Even the Europeans really do not know. They have run polls, and found that about one-third of the Europeans cannot name the members of the Community. So it is a complicated body which very few people understand.

I would say not only this administration in the United States, but the previous administration, really did not have a very high level of information on what the EEC was. It is not a question of whether you like it or do not, whether it fascinates you or whether you think it is a good thing—which I certainly do—but it is just to

understand it, because it is so important. It is one of the major developments in the world, it is of consummate importance to the future of the world and it seems to me that one has to know something about it.

Within the United States government, if I were teaching a course on this subject, most of the senior officials would fail. One can excuse this to some extent by two things. One is the distraction of other urgent problems, which we have certainly had, domestically and internationally. Secondly, as I have done in the past, I would put a good deal of responsibility on the Europeans. They have not tried to explain what they are doing.

I answered this in part when I talked about the responsibility to have missions which carry on this particular task. It is not a burden which ought to be put on the normal diplomatic establishments. I have argued that when the foreign ministers, or the heads of government, are abroad, they have an obligation to try to explain to the United States what they are up to. Mr. Heath did this, eloquently and continually, both publicly and privately, and this obviously had an effect.

If this policy is important to the Europeans—as they claim it is—and this is the centre of their policy—which it seems to be—then they cannot, in good conscience, fail to make the point in their conversations with senior American authorities. They have not done this in the past.

These are the contributing elements to ignorance, but this is in the process of change. The visit of Mr. Heath and that of Sir Christopher Soames obviously have begun to change the situation. Even before that, the ambiguous phrase "It is Europe in 1973"—and I do not know what it means—is at least an encouraging slogan.

Senator Lapointe: Thank you.

Senator Macnaughton: Mr. Ambassador, if a major trade confrontation between the Community and the United States were to develop, what do you think the implications for Canada would be? Would we be considered part of the American orbit, or could we enjoy a separate entity?

Mr. Schaetzel: I do not know, I think you would be like somebody standing on the sidewalk at a time when a great wreck took place, that you would have a very strong chance of being injured. As to whether the Europeans or we would look upon you as being for us or against us, that would depend on what you did and what the issue was. I could not predict in any hypothetical sense how you would come out; but frankly, within this area of highly hypothetical speculation, you would have an awfully tough time not being involved in one way or the other, and probably in not being injured.

Senator Macnaughton: Are we considered as being within the American orbit?

Mr. Schaetzel: Yes. There are other people who can answer this more responsibly than I. I think the Europ-

eans, when they think about Canada, are probably thinking about North America and tending to lump you in with us. Whether they will separate you from the United States and deal with you as a different entity, I do not think this is foreclosed. But at this juncture there is a kind of instinctive non-intellectual European reaction which is to throw you together with your North American neighbor.

Senator Macnaughton: Then, if we go to Europe, should we not act as Mr. Connally acted towards us?

Mr. Schaetzel: I would trust that, no matter where you go you would not adopt that technique.

The Chairman: On that note—as we have finished—we thank you very much, Mr. Schaetzel, for a most rewarding morning.

The committee adjourned.

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FIRST SESSION—TWENTY-NINTH PARLIAMENT
1973

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 2

WEDNESDAY, MARCH 14, 1973

Second Proceedings Respecting:
Canadian Relations with the Expanded
European Communities

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lapointe
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Nichol
Croll	Rattenbury
Deschatelets	Sparrow
Lafond	van Roggen
Laird	Yuzyk—(20).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 14, 1973:

“With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Molgat:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the said subject in the preceding session be referred to the Committee.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, March 14, 1973.

(4)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 11.05 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Carter, Deschatelets, Flynn, Grosart, Lafond, Lapointe, Macnaughton, McElman, Sparrow, van Roggen and Yuzyk. (12)

Present, but not of the Committee: The Honourable Senators Argue, Heath, McGrand and Molgat. (4)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee and Mr. Peter C. Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade.

The Committee continued its study of Canadian Relations with the Countries of the Expanded European Communities.

Witness:

Mr. A. F. W. Plumptre,

Special Adviser on Governmental Relations, International Development Research Centre.

At 12.40 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, March 14, 1973

The Standing Senate Committee on Foreign Affairs met this day at 11 a.m. to examine Canadian Relations with the expanded European Communities.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, in welcoming Mr. Wyn Plumptre as our witness this morning, I feel I must offer some apologies for the numerous times we have had to change the date of this meeting. However, we are grateful that he has always been very co-operative in adjusting and has consented to appear today just on the eve of a trip he is making to Latin America. I understand he is leaving at 6 o'clock tomorrow morning.

Mr. Plumptre is with the International Development Research Centre as Special Adviser on Government Relations. An economist, he has had a wide variety of experience both in academic and government fields. His most recent posts have been: Principal of Scarborough College, University of Toronto, and, before that, Assistant Deputy Minister of Finance in Ottawa. During the past year, Mr. Plumptre was the Canadian member of the OECD high level trade group, led by Jean Rey, which examined the major international trade problems and issued a report last September as a guide to the forthcoming multilateral negotiations. During the group's meetings he undoubtedly had an excellent opportunity to gain new insights into the attitudes of the European representatives and to assess their reactions, particularly in respect to the American positions. I may say, in passing, Mr. Plumptre, that amongst your many other accomplishments, you used to lecture to me at the University of Toronto in the distant past.

Before asking Mr. Plumptre to proceed, may I remind members that an *in camera* briefing with governmental officials has been arranged for 10:30 tomorrow morning, March 15, in Room 256-S, in connection with our trip to the EEC in Brussels. I urge all members who are making the trip to try to be present, as we will have an excellent panel of officials from several departments who will outline the key features of Canada-EEC trade relations and will be pleased to discuss them and to answer questions.

From my discussion with Mr. Plumptre, I understand he is going to make a presentation which will take about twenty minutes. In our usual way, we will proceed then with a lead questioner, and Senator Carter has kindly volunteered. Then the Chair will recognize other senators in due course.

You are indeed very welcome, Mr. Plumptre, and thank you once again for adjusting to our difficulties. We appreciate it very much.

Mr. A. F. W. Plumptre, Special Adviser on Government Relations, International Development Research Centre: Thank you very much, Mr. Chairman; and may I say how delighted I am to have been invited to be with you this morning? If I can help, I will be glad to.

As your chairman has said, I have had a particular experience during the past year with the OECD Trade Committee, and a rather long experience in the Public Service of 25 years before that, all of which was in relation to international affairs.

I have read with great interest and appreciation the proceedings of your previous hearings, and I am shaping what I have to say this morning very largely in relation to what has been said to you before. To some extent I may be duplicating what has been said, but it seems to me that a rather different approach or perspective would add to the spectrum of views which you take with you as you leave for overseas.

I shall be talking under four headings. The first is to review the proposal for a special relationship between Canada and the European Economic Community. My second heading will be some remarks on European attitudes and preoccupations at the present time. My third section will be some remarks on the U.S. attitudes and preoccupations at the present time; and finally, my fourth, some concluding comments on the Canadian position.

First of all, then, on the proposal that there should be a special relationship between Canada and the European Economic Community: This special relationship, as Ambassador Schaetzel explained to you, could not be Canadian membership in the Community—this is excluded by the treaty—but it might take the form of preferential trade arrangements of one sort or another, or a free trade area. At least one of your witnesses has recommended this; others have questioned it.

The questioning came particularly vigorously from your last two witnesses. Mr. Rogers said, "It seems to me that it is really nonsense . . . to talk about preferential deals with Europe . . ." And Ambassador Schaetzel said, "You [Canadians] should not seek a special relationship [with the EEC] and even if you did, you would not get it."

I should like to say a few words about Ambassador Schaetzel's two points: first, about "you would not get it"; and, second, about "you should not seek it."

I think one can identify five reasons why the EEC would not grant any special relationship to Canada—preferential, pre-free trade, or whatever. First, and by far of most importance, is to recognize that the whole thrust of the EEC movement is European. It is the European Economic Community, and its vital and fundamental purpose was to unify a war-torn continent. That is what it was all about. It was to bring together separate and often divided nations under one umbrella, essentially, originally, economic and then broadening, at least to some extent, into the political. It is intended to be a European movement.

There is, as in any important world movement, a momentum that builds up around this sort of movement, and I find myself using the phrase which the Americans used one hundred years ago, "manifest destiny." There is amongst those who are sponsoring the unification of Europe in one form or another a sense of manifest destiny which certainly spreads over the immediate continent of Europe, which spreads a little farther around the Mediterranean and then towards the ex-colonies of Europe, but which does not spread towards other continents; and, therefore, a country like Canada is not embraced.

Senator Grosart: Are we not an ex-colony of Europe?

Mr. Plumptre: They cannot remember that far back, sir—and I do not think you can either!

I have just led into the second point, and that is that in their thinking, and in thinking of this sort, Canada's manifest destiny belongs in the western hemisphere, and in so far as they think about Canada in these sorts of global terms, they think of us as being North American. In this regard the European Economic Community has accepted as natural the common resource arrangements that have been made from time to time between ourselves and the United States; the common defence arrangements that have been made; the special financial arrangements, such as exemption of Canada from the American interest equalization tax—a discriminatory measure—and, more recently, the auto pact.

All of these things they accept as being part of manifest destiny, part of a continental concept of development.

I am not saying that I fully agree with these things. I am only saying that this is the sort of thinking that I have found in recent months in Europe.

That leads me to the third point, as to why they would not grant a special arrangement to Canada, and that is that there are no special grounds for discriminating in Canada's favour rather than in various other countries'. True, we are a former colony, but so, of course, is the United States—not to mention Australia, New Zealand, South Africa and so forth. So, if they did grant any special relationship to us, this would lead by precedent to the question of a number of other relationships; but their intention is to make Europe cohesive, which, obviously would not be furthered by granting special relationships all around the world.

The fourth reason—one which was mentioned by Ambassador Schaetzel—why they would not want to take us in is because ours is amongst the most efficient agriculture on a very large scale in the world. Their own agricultural arrangements are amongst relatively high-cost countries, highly political in their nature, and again to use Ambassador Schaetzel's phrase, "to include Canada in

the EEC would tear the bottom out of their common agricultural policy."

Finally—and this was also mentioned by Ambassador Schaetzel—the EEC has already seriously upset the United States over various eastern hemisphere extensions and special arrangements extending down across the Mediterranean. Have were special arrangements, preferential arrangements, with Africa, which, as Ambassador Schaetzel explained to you, were highly upsetting to the United States—perhaps more upsetting politically than they were in terms of trade and economics. But to offer a special relationship with Canada, to make such an offer to Canada, in Ambassador Schaetzel's words, "they would be out of their minds in maintaining any sort of relationship with the United States."

Turning now to the other side, the "you should not seek it" side of the special arrangements between Canada and the European Common Market, I think this can best be put forward in terms of a sort of cost benefit analysis. What are the costs and what are the benefits to Canada from any such special relationships?

In this regard I am going to invite you to look at some statistical tables which have been circulated—statistics which partly relate to the quantity of our external relations with the Community and partly to their quality.

In looking at these tables, may I emphasize that if a country discriminates in favour of another country, or group of countries, it automatically discriminates against those who are left out. People sometimes like to look at only the "plus" side of discrimination, without looking at the "minus" side, and that leads to a lot of rather wishful thinking. So let us look at the tables, having in mind that when you discriminate in favour of somebody you necessarily discriminate against somebody else.

Table 1 is a simple table showing our exports to Europe. First, the EEC—it was in 1971 before Britain had joined, of course; then the U.K.; then other European OECD countries, most of which would be embraced in the enlarged EEC or in the countries with which they are developing special preferential arrangements, the neutrals and so forth. So one has an aggregate of exports to Europe from Canada in that year of slightly less than \$3 billion.

Those are the exports which would, in a sense, be benefited by some special relationship; they would be discriminated in favour. But the exports that would be in jeopardy because we were discriminating in favour of the EEC are impressive. First of all, the United States, \$12 billion; secondly, Japan, about \$800 million; thirdly, Latin America, about \$700 million; and all the rest of the world, Asia, Australia and so forth, \$1.3 billion. So that over against the \$3 billion of exports which we would, in a sense, be encouraging by a special relationship, you have \$14.7 billion worth of exports to countries against whom we would be creating new discrimination.

In that regard, of course, one has to recognize that these countries, particularly the United States, would be unhappy about Canada discriminating against them, but before going into that I would just like to look at table 2, which has to do with growth rates. It is true that European growth rates have been very rapid in recent years, but Mr. Rogers brought that to your attention in his evidence last June that the expected growth rates as between Europe

and Japan, the United States and elsewhere, depended in the longer term, fundamentally, on population growth rates, and in their turn, on labour force growth rates.

Table 2 indicates the labour force growth in industrialized countries. First of all, of course, Canada's growth rate in terms of labour force far outruns all the rest, which relates to our employment problems in recent years. But disregarding Canada, which is the column to the left of the groups, one has the others, indicated on the right-hand side, showing the United States and Japan as being very substantial growth rate countries over the next decade, with the European rates being substantially less. Particularly important is the growth rate in the United States for 1970-1975 and 1975-1980. So, the basic anticipation is that European growth rates will probably level off and be overtaken by American expansion.

The Chairman: Mr. Plumptre, what is the source of these statistics? Is it the OECD?

Mr. Plumptre: No. On the front page I have indicated the sources, and this one actually is from a brochure put out by the Canadian-American Committee. A couple of the others are from the report to which you refer.

Senator Grosart: Mr. Chairman, I see the other very interesting tables, and I wonder if it would be possible to have them brought up to date. I am speaking particularly of table 5.

Mr. Plumptre: I am not in a position to bring them up to date, but tomorrow you will have before you officials from the Department of Industry, Trade and Commerce who could, I am sure, bring those up to date. There is a representative of the department here today, Mr. Castonguay, who, I am sure, will report this question back, and so they can, perhaps, be brought up to date for you tomorrow.

The Chairman: Would you be good enough to do that, Mr. Castonguay? We would appreciate it very much.

Mr. Castonguay: Yes.

Senator Grosart: There are some other interesting tables in the Canadian-American Committee brochure, and while the department is bringing this one up to date, perhaps it could bring them all up to date. That would be very useful.

Mr. Plumptre: Well, there are many tables.

Senator Grosart: Not too many of them.

Mr. Plumptre: Well, Mr. Castonguay has taken a note of this. I am glad Mr. Castonguay is here because he is the author of the next two tables. He is a student of mine at Carleton University and has been working in this field.

The next two tables indicate the nature of our exports to the EEC in 1971 and are of interest. The general thrust of the top table is that we are, if I may use the expression, hewers of wood and drawers of water to a large extent for the Community. This is shown by the main exports listed on table 3(a); while table 3(b) shows how very, very small is the number and amount of our manufactured exports to Europe. This relates to things which have been explained to you by other witnesses. The types of things which we manufacture are very largely of a North American standard and are related to a North American

market, and they do not break easily into a rather different sort of market, such as the European, even into the British market where in many cases we have preferences.

That leads me to table 4 which indicates, again, that even the British take very largely raw materials and food-stuffs from us. In many cases these will be subject to new tariffs as from this year. Our exports of finished goods to Great Britain are not very spectacular, even though most of them enter Britain under preferential tariff arrangements.

Turning table 5, you will see where I use these rather spectacular tables and pictures which are in this Canadian-American report. The important thing here is, having extracted the spectacular automotive leap, which is indicated in the top table which is table A, if that automotive performance is eliminated, you see in table B that manufactures, excluding automobiles, are running at about 25 per cent of that total, and going back to the top you see it is about 17 per cent of the grand total, which, as you may remember from the previous table, table 1, was 14.7. So merely one-fifth of 14.7 is in terms of manufactured goods going to the United States.

I would also remind you of the great variety not only in types of manufactures which we sell to the United States, which are manufactures from central Canada, Quebec and Ontario, but also that we export to the United States from right across Canada. They export fishsticks from Nova Scotia and they export lumber from British Columbia. Our exports to the United States are very diverse both in local and regional origin in Canada and in types and qualities.

What I am obviously emphasizing here is the degree of exports which we put at risk if we discriminate against the United States. In my thinking, a special relationship with Europe offers no escape from our dependence on the United States. I am not, of course, saying at all that what Mr. Sharp has said to you and what Mr. Pepin has said to you about the desirability of expanding our thrust is not desirable; clearly it is desirable. What I am saying, however, is that it should not be fostered by seeking a special preferential relationship; and, secondly, I think I would add that I would question whether it is going to change fundamentally the proportions going in the various directions. It will change them marginally, perhaps, but not, in my view, fundamentally.

Senator van Roggen: What you are saying in fact is that it is a desirable thing to try, but that it is not a substitute for anything.

Mr. Plumptre: That is exactly what I am trying to say, thank you.

Now, if I may come to my second heading. I should like to remark on what it seems to me are the European preoccupations at the present time, which are certainly not with Canadian affairs—indeed, they are not with external affairs at all. They are essentially with internal European affairs. In addition to the internal preoccupations which every national government has with its national problems, Europeans now have a large number of very special preoccupations because of their involvement in the Common Market. I will run through these very quickly, just to remind you of them.

The first, of course, is the aftermath of the common tariff around the Six which, of course, has created new trading problems within Europe, and has created, as we have in Canada, underprivileged areas which need support. They need a transfer of resources to assist them and special incentives for development. There are all sorts of special problems of that kind—in addition, harmonization of national taxation; harmonization of social and labour legislation as between neighbouring countries where now goods move freely; harmonization of commodity taxation—all these things are highly pre-occupying to the Six. In addition, as I have already mentioned, they are pre-occupied by a highly complicated system of support and protection for largely uneconomic agriculture.

In addition to those two matters which relate to the Six, they now have the problem of taking in three new countries—Britain, Ireland and Denmark, three very different countries incidentally—within the common tariff and within the common agricultural policy, which add degrees of difficulty to these problems.

The next point is that they have just launched, as of last fall, an effort to create a common monetary policy—a so-called “snake in the tunnel” exercise—by which they want to constrain within narrow limits exchange rate fluctuations between European countries, while leaving the group to fluctuate rather more widely in relation to the rest of the world. The events of last week have shown the extreme difficulties they are having in relation to launching that project. Of course, the recent upsets in the exchange market have come at a very inopportune time for them, just as they were beginning a new experiment and when they would have liked to float on a sea of tranquillity for a while rather than on the waves of a tempestuous foreign exchange market.

The Chairman: Apparently, that phrase has been changed. Yesterday I listened to Forrest Rogers in Toronto on the same subject, and he said, “The snake in the tunnel has now become the snake in the lake.”

Mr. Plumptre: Yes, I see.

Then, in addition to that, there are the special relationships, to which I have made reference already, to the neutrals in Europe, to those on the north side of the Mediterranean, to others on the south side of the Mediterranean, to African countries, and so forth—a whole host of new relationships to the Community. No wonder the Community is very inward looking at present. The pre-occupations are really quite staggering. Yet it comes at a juncture in world history when outward-lookingness is highly important.

That leads me to turn to the position of the United States, about which I would like to make some remarks. At this juncture in world history the United States also has some internal pre occupations. President Nixon has identified many of them in his recent messages—lawlessness and violence, drugs, inflation, unemployment, bulging bureaucracies, which is not confined to the United States, urban sprawl and decay, pollution, and the preservation of the environment, resource exhaustion, and so forth—there are many internal pre occupations for the United States.

Let us remind ourselves what a small segment of the United States has any active interest in the outside world. Canada generates more than 20 per cent of its gross

national product from exports; both the EEC and Japan generate about 10 per cent of their gross national product from exports; but the United States only generates between 4 and 5 per cent of its gross national product from exports. Therefore, it is traditional in the United States that they should be isolationist. Yet the astonishing fact at the present juncture in world history is that most, if not all, of the world leadership in regard to new initiatives of an outward-looking character is coming from the American administration. I am no vast admirer or lover of President Nixon, but this cannot blind one's eyes to the fact that these initiatives are coming from the United States, and the fact that these initiatives, broadly speaking, are very much of a type which is compatible with Canadian interests.

Let me just remind you of a few of the American administration initiatives over the past year to 15 months.

Firstly, it was the Americans who brought Japan and the EEC to agree to a new round of negotiations under the GATT for a further reduction of trade barriers, both tariff and others.

Secondly, the Americans have launched a strong thrust in an endeavour to get the Europeans to rationalize their agricultural program to make it more economic and less high-cost, and, therefore, more open to imports from the rest of the world, and also less liable to dump its high-price-support generated surpluses on world markets to the embarrassment of ourselves and other low-cost producers.

A third initiative of the Americans is to try to get the Europeans to open up their markets to Japan. The great thrust of Japanese exports has been to the North American markets, which have been much more open. The Europeans have continued to discriminate heavily against Japanese imports, so the weight, the burden of absorbing this vast flood of exports from Japan has come, quite unfairly, on to North America. Again, the Americans are trying to divert some of this flow to Europe, thereby lightening the burden on themselves and ourselves.

The United States is endeavouring to persuade the Europeans not to try to create a sort of zone of influence for the whole of Africa, but to allow Africa to become a group of reasonably independent, self-reliant countries, rather than holding them in the thrall of a sort of neo-colonialism from Europe. This American initiative is very much in our favour. Mr. Sharp remarked to you about the anomaly of our giving aid to certain East African countries when they were, in fact, discriminating against Canadian exports. It simply is not reasonable.

Again, the Americans are the leaders in proposing new rules in the world monetary system. Without going into those rules in detail at this stage, it is my opinion that most of the things they are proposing in the monetary field are the sort of things that will be helpful to Canadian interests—such as a great deal more flexibility in the exchange rate and parity arrangements which, if implemented, could allow Canada to come back within the fold of those who are obeying the rules of the international fund rather than floating outside, as we have been forced to do for so many years. In general, the U.S. approach is to restructure and rebuild the international trade and monetary system on a non-discriminatory basis that will not produce hostile blocs throughout the world. The general framework of world trade and payments is at this

time, as we well know, in danger of falling apart. Both the United States and Europe have enormous internal pre-occupations; but the Americans have been able, in addition, to give world leadership in all sorts of fields of a very helpful character as far as we are concerned.

Mr. Chairman: Can I briefly run over some comments from the Canadian point of view?

The Chairman: Yes, sir, I think it is a very good way to close your remarks.

Senator Macnaughton: You gave us the gross national product for exports: the EEC, 10 per cent; Canada—I am not sure of the figure—

Mr. Plumptre: Canada is just over 20 per cent, close to 21 per cent.

Senator Macnaughton: And the United States is between 4 and 5 per cent?

Mr. Plumptre: The United States is actually 4.3 per cent, between 4 and 5 per cent.

Senator Grosart: Those are commodity exports.

Mr. Plumptre: Yes, commodity exports.

Senator Grosart: It is somewhat changed when investment exports are included.

Mr. Plumptre: You mean the interest of the United States; that is quite true, yes.

Senator Grosart: And quite important at the moment.

Mr. Plumptre: Certainly, yes.

Now some comments on Canadian attitudes. As I have already said, these initiatives of the United States administration seem to me to be highly desirable from the Canadian point of view. However, we are inhibited in our reaction to them and, quite frankly, we are inhibited because in so many cases they have been put forward in a way and sometimes to an extreme which makes it very difficult for the friends, or the erstwhile friends or normal friends of Uncle Sam to give them the sort of support that they deserve. Nevertheless, I would hope that we would manage to think and work our way through these inhibitions, because in the absence of initiatives of this type the world seems to be quite clearly falling apart in a way which would be highly contrary to Canadian interests.

If by mischance or mismanagement the world does break up into blocs, hostile or other, there is no question in my mind where Canada will end up—i.e. in North America. There is no question in my mind; there is no viable alternative in any other direction. Geography, proximity, common languages, common technology, the mass media, all sorts of things will tend, if the world does break up into blocs, to mean that we will be in the western hemisphere bloc or, if you like, in the United States bloc. That being the case, it seems to me quite clear that we should bend every effort to avoid a world which does break up into blocs, whether one speaks in terms of not wanting to be in the American bloc or simply desiring a reasonable degree of independence of action for this country.

This brings us to an interesting paradox, which I am sure is true, that the best way to avoid being taken into the

American camp is to support the initiatives that they are making at the moment for a multilateral non-discriminatory world. Helping the United States may seem to some to be cuddling up to the United States. In fact, it seems to me to be the one and only way of escaping from American dominance. I just repeat that this does not mean that we should not have the sort of initiatives Mr. Pepin and Mr. Sharp have put before you to encourage and broaden our trade, to broaden our perspectives. However, as I have already said, I do not expect these to change our fundamental position of heavy dependence on the United States.

Therefore, I think my final message to you is that we should avoid preferential arrangements. As was mentioned in one of your earlier meetings, the effort to depart radically from relations with the United States was made by Mr. Bennett and by Mr. Diefenbaker. It was pointed out at that time that they were Conservatives, but it is also true to say that the first Empire preference tariffs were in the Fielding budget of 1897, which was not a Conservative budget. However, whether it has been from one side or from the other, efforts to become independent through preferential arrangements have been in one way or another doomed to failure. It is my strong feeling that if we can find a way to do so we should be supporting, vis-à-vis the world and vis-à-vis the Europeans, the United States type of initiative, in substance although not necessarily, I would say, in form.

I have been much too long; I am sorry.

The Chairman: You have not lost your rare turn of phrase—"cuddling up to Uncle Sam," "bulging bureaucracy" and a few others which make your presentations so colourful. Your efforts in going through the previous testimony and putting it all together will be of great assistance to us and will materially assist our record. We are grateful for that. Thank you.

Senator Carter: Mr. Plumptre has given us so much food for thought this morning and has covered so many vital areas that I am sure every member will have questions. I will therefore limit mine to three areas.

To begin, that budget of 1897 referred to by Mr. Plumptre was not too successful, if I remember.

Mr. Plumptre: None of the initiatives to which I referred were too successful, senator.

Senator Carter: Mr. Plumptre, you have sided with Ambassador Schaetzel in his argument against Mr. Rogers that we should seek some special arrangements with the EEC.

Mr. Plumptre: Excuse me; I think not with Mr. Rogers. The difference was with Dr. Pentland.

Senator Carter: Dr. Pentland, yes. You were a member of a study group under the chairmanship of Mr. John Rey. That group made three recommendations. First, a high priority for reciprocal trade relations, not only in industry but also in agriculture. It recommended new and substantial across-the-board reductions in industrial tariffs similar to the Kennedy Round, a one-third cut and a serious assault on non-tariff barriers which appeared to be in many cases effective substitutes for tariff protection.

Would you care to elaborate on these three points and assess the prospects for trade liberalization measures at the negotiations later this year? Do you see the possibility of any dismantling of the protectionist agricultural policy, for example, of the EEC? Do you agree with Mr. Sharp, who believes the danger of a destructive trade war between North America and Europe has receded? He is quoted in the *Globe and Mail* as saying we have pulled back from the abyss.

Mr. Plumptre: May I attempt to answer briefly as many as I can of those very challenging questions?

First of all, I think I should say that the Rey committee was not entirely unanimous. If you read the report carefully you can see that there are "On the one hand", "On the other hand", paragraphs quite often. While some clearly recommended an assault on the common agricultural policy, others emphasized that it was at the heart of the Community and must not be assaulted. My own position is that if one does not assault a situation such as this it will stay for ever. There are many in Europe who find this a very expensive and undesirable political manoeuvre and who would like to see it relaxed. Unless those who are hurt by it outside keep saying so, those inside will not receive the support they deserve.

I do not think that the common agricultural policy will wither away in a year or two. It is clearly there to stay, but the timing of its relaxation will in no small measure depend upon the degree of pressure that is exerted from outside as well as from inside.

Turning to the more general field of trade reductions and non-tariff barriers, the committee was much more unified in its approach to the desirability of the reduction of such barriers. There again, however, there was diversity, the American representatives arguing that industrial tariffs should be abolished over a 10-year period, whereas others were in a much more modest posture.

I am still hopeful that the American administration will be able to get enough support from Congress to get the legislation they need, and that they will then find enough response, both in Europe and in Japan—and here in Canada, because, after all, despite the President's preoccupations elsewhere sometimes, we are their largest trading partner. I think that the ability of the United States administration to get the legislation they need will in part depend upon the sort of noises we are making up here. This is one of my preoccupations in relation to the issues I was talking about a little earlier. If we react in an adverse way to American initiatives, or do not seem to support American initiatives, I think within the United States and within Washington the administration will not get the support which I hope they will obtain.

Having said all this, I think there is still a reasonable prospect of really substantial trade negotiations being undertaken. I personally feel that what is going on in the exchange market is not as dire a situation as other people may think. Canada has had a floating rate for a long time; it has been a much more stable rate than rates which other people have tried to fix; and I do not believe that an era of floating rates is necessarily an era of wild instability in exchange rates. If I did, I would be very pessimistic at the moment—more pessimistic than Mr. Sharp might have been when he spoke about drawing back from the abyss. We have been through some very shaking experi-

ences in exchange markets recently, but I personally take the view that this, to some extent, is allowing elbow room until we can get a new system of world monetary rules.

Senator Grosart: Would you make any distinction, in the making of noises, between quiet diplomatic noises and headline noises?

Mr. Plumptre: Of course, you distinguish between them.

Senator Grosart: I mean in this context. Which will be more influential in the long run?

Mr. Plumptre: I have not lived in Washington for a long time. There was a day when I would have answered that question, certainly, and said that the quiet diplomatic noises were the more important noises. I am not sure that is still the case. Your judgment would be as good as mine on that issue.

Senator Carter: Do you envisage the European Economic Community evolving a common policy amongst members for negotiating as a bloc in trade areas? Will the recent enlargement make a consensus more difficult to obtain, particularly in the presence of the United Kingdom?

Mr. Plumptre: The EEC in the Kennedy Round was represented by the commission as a single negotiator. So the Six have, in fact, achieved this position in regard to trade and tariff matters. There are all sorts of other matters where they are not equipped to speak with one voice, but in trade and tariff, yes, they are equipped to speak with one voice. The accession of the three new countries will, of course, add to the difficulties of obtaining unanimity, but I would not say "materially." I think that the machinery of bringing about the consensus and speaking with one voice is now well established, and therefore I do not envisage the accession of these three countries resulting in an inhibition in speaking with one voice. Now, the voice may be different from what it would have been if these three had not been in; there may be a bit of an English accent.

Senator Grosart: Or an Irish accent!

Senator Carter: I perhaps should have added one other point. If they do evolve a method and do, in fact, speak with one voice, will their set-up enable them to have sufficient flexibility to make any meaningful progress?

Mr. Plumptre: On tariffs, yes. They really are master of the common external tariff; there is no question about that. On the non-tariff barriers, which do not fall entirely under the commission, the answer has to be more equivocal. There, individual countries may have to speak with individual voices. It is a question that you might ask when you go over there. I do not know the entire answer to that question.

Senator Carter: Do you agree with the U.S. opinion which accuses the EEC of causing the demise of the most-favoured-nation principle in GATT by its new system of preferential arrangements?

Mr. Plumptre: I think that is a great exaggeration. I can see the element of truth that clearly is there, but it is a great exaggeration to suggest that the most-favoured-nation concept goes out the window when EEC comes in the door.

Let us look at table 1 and just remind ourselves that what we are talking about is some sort of fusion, as far as Canada is concerned, amongst the groups in the top section of that table. Therefore, to a greater or lesser extent, the most favoured nation, with individual parts of that group, ceases as far as Canada is concerned. But "most favoured nation", as far as the group as a whole is concerned, continues. That becomes a very important trading partner. But if you look at the rest of our list, MFN still applies individually throughout the rest of it. To say that it has disappeared is wrong. To say that it has changed its form in Europe so that we do not have MFN with each individual unit but rather with the thing as a whole, that is true. But I think the American position on this is grossly exaggerated.

Senator Carter: I gathered from your answer to my first question that you are optimistic that the present instability of international currencies can somehow be straightened out. Would you be good enough to give the committee your comments on the present system? What is the root of its main weaknesses? Is it the United States balance of trade? Is that the main factor in its instability, or are there other contributing factors? What is the real root of the trouble at the present time, and how do you think it can be overcome?

Mr. Plumptre: There is a legal root, that you referred to; and then, of course, there are some economic and financial roots. The legal root of the difficulty is the peculiar position accorded in the agreement of the international monetary fund to the U.S. dollar. It accords to the U. S. dollar a central, pivotal, fulcrum-like position with all other currencies reacting around it or against it to form their relations with each other; and because it was accorded the position of a fulcrum—and it seemed sensible in 1944 that it should be accorded such a position—it does not have the same mobility as the people at the two ends of the seesaw. It has stuck, and there has to be an agreement amongst all concerned under the fund rules for an effective change in the U.S. dollar. Therefore, there was a real legal problem to getting the U.S. dollar into relationship with the changing U.S. balance of payments, so there is that legal problem.

In addition to that, there was, of course, the U.S. balance of payments position, which went from bad to worse, which in my view would not have gone that way if they had had the same rights to change their currency as other countries had—which they did not have. So, I think from a legal point of view that is very important.

A second point, which relates to the operation of the fund, is to try to ensure that in future, creditors, internationally speaking, have reciprocal responsibilities with debtors, rather than creditors having a free ride and the debtors being responsible for doing all of the adjusting. I think this is a highly desirable concept.

A third concept that we need to introduce—and I have already referred to this—is a greater flexibility in the adjustment of exchange rates so that the exchange rate can take on its shoulders more of the burden of altering capital and commodity movements to bring about balances.

Senator Carter: Thank you, Mr. Chairman. Perhaps you could put me down for another round, and I will now yield to other members of the committee.

Senator Macnaughton: Mr. Plumptre, you have already answered in the last five minutes some of the overall questions I had in mind. I am going to throw a global question at you. Would you explain the monetary difficulties at the moment vis-à-vis the positions of the EEC and the U.S.A., and where Canada fits in? I do have some notes here. For example, they refer to the prospect for complete monetary union in the EEC by 1980, with a pooling of national reserves, with the issue of European currency in 1974 and a general integration—

Mr. Plumptre: I do not think there is a proposal to issue a new currency in 1974.

The Chairman: To create a unit, though, sir, I believe.

Senator Macnaughton: To launch a new European currency unit in 1974.

Mr. Plumptre: Yes, that is right.

Senator Macnaughton: I suppose it could be summed up thus: Have the current monetary difficulties served as an impetus to integrate the European monetary policies by uniting them against the United States? This is all part of the greater problem. Could you develop your theme a little further?

Mr. Plumptre: My own view is that recent experiences have emphasized the difficulties inherent in this common currency proposal. I think the program is likely to be deferred or delayed. As may be clear from what I said a few moments ago, I put a good deal of store in the relief that a country can get by having its exchange rate move up or down relating to its balance of payments. We certainly have found periods of a floating rate—where the thing could move a bit one way or the other and absorb the pressures of trade and investment changes—to be a considerable relief. I fear for an effort to try to bind Europe too tightly together. I think they have a good deal in common, but I think it will aggravate their difficulties inter-regionally, such as we have here in Canada with respect to transfers between provinces causing difficulties—areas that are hurt by one or another monetary policy. As long as they are separate, each country can take the line that is most accommodating to its agriculture, its industry, and so forth. If you get them all into a common monetary straitjacket, I think they are in for an aggravated problem. This view, of course, is not shared by many Europeans.

Senator Macnaughton: As between the North American bloc and the European bloc, where do we stand? We are on the circumference. We are only a small country vis-à-vis the power in force and the monetary influence of other countries.

Do you think we can just withdraw north of the border and say, "We will look after ourselves and wait until you people have slugged it out"?

Mr. Plumptre: Our experience with the floating rate is standing us in very good stead at the moment. It is allowing us not to get too deeply involved in the problems. I think that the float of Europe against the dollar, which is pretty much in effect now, is going to ease rather than aggravate their problems. Therefore, I am not worried by our present situation. Our float allows us to stand a little apart from the heat of the argument. I think it is very

important that we should see a world monetary system re-emerge. It is for that reason that I welcome the American initiatives which, I think, are generally of a sort we should support.

The Chairman: I should like you to comment, Mr. Plumptre, on the fact that the U.K. did not come into this joint float. What would be the reaction to that in Germany, for instance? I was surprised by it. With Britain now in, we have nine. One Common voice could speak for nine. Yet when we have the present exchange rate settlement we come back with six. I believe Italy was the other country outside.

I was surprised that this happened.

Mr. Plumptre: And Ireland.

The Chairman: Could you comment on that?

Mr. Plumptre: Yes. I think to comment effectively one has to go back a number of years and emphasize the degree to which British thinking has accepted the sort of position which I was mentioning a few minutes ago, the position which attributes to exchange rate flexibility a very great deal of importance in allowing easy adjustments between areas, regions and countries. This goes right back to the original proposals which John Maynard Keynes made before Bretton Woods, and there has been a stream of British thinking which has stressed the importance of exchange rate movements since that time. They have felt themselves under the funnelling system hung up, not on a cross of gold but on a cross of fund legalisms since that time. I think the British must be highly schizophrenic about this common currency proposal; it runs directly contrary to so much of British informed thinking, financial thinking, economic thinking, over the past three decades. Therefore, I was not surprised that the British continued to float. I think there was a proximate reason, too, that being that they are having these terrible problems with strikes, and so forth, against the attempt to control wages. It would be a very difficult time for them to pin their colours to any particular mast.

The Chairman: I agree with you. I think the fact that they did not join, in fact, does delay the monetary union. I do not think there is any question about that.

Senator Macnaughton: I have two other simple questions. Would you care to comment on the Euro-dollar situation and the multi-national corporation situation?

Mr. Plumptre: I cannot comment easily on both because I do not really understand them. That puts me in pretty good company.

The Chairman: A very large group.

Mr. Plumptre: The Euro-dollar market is obviously a source of instability in Europe, but it has also been a source of expansion in Europe. The multi-national corporations which, of course, have been moving the funds around from capital to capital, are, to some extent, the causes of the problem. However, I would say, rather, that the world monetary arrangements have not yet been accommodated to the realities of the modern world—i.e., the multi-national corporations and their movement of funds. I do not blame them; they are doing their own thing and that is what they are for. I think we must get a new exchange rate system in the world which can accommo-

date this type of movement. However, I am not very good on either.

Senator Macnaughton: If you had to choose, Mr. Plumptre, would you choose the U.S. dollar or the new evolving currency of the EEC to link yourself to—you as a Canadian.

Mr. Plumptre: There is no question about that. If you look at page 1, this tells you immediately where we link. Senator Grosart's comment about finance makes it an open-and-shut case. Our financial relationships are very largely with the United States, so we automatically link up in that direction. It does not necessarily involve fixity, but it does involve the sort of primary relationship as being with the U.S. dollar. Many other countries in the world will find themselves in that position.

Senator Macnaughton: At the beginning of your address you used the phrase, "manifest destiny." I think I have heard that before, certainly at first year McGill. Would it be facetious to call it, speaking of the Europeans, manifest conceit?

Mr. Plumptre: Was it?

Senator Macnaughton: Would it be?

Mr. Plumptre: But I have put the question back to you. Was it conceit of the Americans to think of manifest destiny in taking over "Fifty-four-forty or fight?" I think it was conceit on both sides to a certain extent. The thrust cannot be ignored.

Senator Grosart: They did not fight and they did not get fifty-four-forty.

Senator Grosart: In the Canadian-American booklet there is another very interesting chart, which I am sure you will recall, which presents the present and predicted population market—the market which faces us now and will face us in the future. This chart indicates that we are really going to be the odd man out. We will still have in, say, 1980 maybe a population market of 25 million, and almost everybody else will have a market of at least 100 million, some much more—the EEC 300 million, the United States 200 million, Japan 100 million. Can we really be the odd man out, or will we be forced into economic integration with the United States?

Mr. Plumptre: We will be forced into integration with the United States, in my view, if there is not a substantial reciprocal reduction of trade barriers on both sides of the Atlantic.

Senator Grosart: That answers it, thank you. It is a great answer.

Senator Lapointe: Could you assess the prospects for trade liberalization measures at the forthcoming negotiations? Do you see a possibility of any dismantling of the protectionist common agricultural policy?

Mr. Plumptre: I think it would be a great mistake to assume that the common agricultural policy is immovable. I am sure that over time there will be forces working from inside as well as from outside that will modify the common agricultural policy. It will not happen soon, but it will happen sooner if there are pressures from outside as well as from inside. Therefore, there will not be any

radical change within the next two or three years. The negotiations of which you are speaking will probably last, if they get going in 1973, for three or four years anyway; their results will then be put into effect over another three or four years; so the outcome is nearly a decade away, by which time there may be quite substantial changes in the common agricultural policy.

Senator van Roggen: Senator Grosart has really asked the question I intended to put, but I would like to elaborate on it a little. Mr. Plumptre, you mentioned that the only way we could really avoid economic integration with the United States was if the multinational trade negotiations were further successful. They will only be successful to a degree of lowering tariffs, not creating one global free trade area; at least, I do not suppose we will have a global free trade area. We have these huge manufacturing trading blocs. I say "manufacturing" because they are the industrialized part of the world; they are not in the Third World. Nobody has mentioned Russia, which has a market, with its satellites, of 350 or 400 million, I suppose. Europe has 350 million; the United States has 200 million, but I suppose a purchasing power of 300 million; Japan has 100 million, but by the same token a market larger than its population because of its lower wage scales, which automatically puts it into a greater area.

At the beginning you pointed out, quite properly, that even our exports to Europe are largely raw material oriented. Certainly, there is a complaint that our exports to the United States are this way. The common catch phrase in Canada is that we have to get more value-added, more manufacturing going in Canada. How can we get into the manufacturing business in a big way with our 22 million, when everybody else is working a market run of 200, 300 or 400 million, unless we get into a bloc, and there is only one bloc to get into?

Mr. Plumptre: I can only repeat what I said to Senator Grosart. I think we will be forced into a bloc unless there is a substantial reduction of barriers by the two big blocs. I do not think this is outside the bounds of possibility.

Senator van Roggen: Would you develop to what extent you think these negotiations might carry tariffs down? In other words, is it fractional? Are you really thinking in terms of something approaching free trade on such a massive scale?

Mr. Plumptre: Some top people in Washington are certainly thinking of what was in the Rey Report, an approach to the elimination of tariffs on industrial goods over 10 years, subject to an important escape clause which would allow temporary protection in cases of serious injury. This concept of a so-called "safeguard" clause, on which there is a good chapter in the Rey Report, has a very high ranking in the American mind. Incidentally, in the Rey Committee there was strong response to this on the European and on the Japanese side. One has to think of both a sweeping reduction of barriers as between the big blocs, and the possibility of imposing some sort of temporary restraint when markets are being flooded. This is conceived of primarily in relation, of course, to floods from low-wage areas where new technology suddenly goes in and there is massive development.

Certainly, my experience on the Rey Committee led me to be reasonably hopeful that there could be a reasonable safeguard clause plus a very substantial reduction in bar-

riers. I am not talking of agriculture at the moment, which I think comes along behind.

Senator Molgat: If I heard you correctly, you said you hoped we would soon get back to a world monetary system. What kind of system do you think we should have?

Mr. Plumptre: That is a very big question. Perhaps I should start by saying that I am sure we need a system, that we cannot be without internationally accepted rules in either the trade field or the monetary field unless we want to get back to the 1930s, when it was catch-as-catch-can, the devil taking the hindmost and the weakest. I am convinced that the world needs rules which are internationally accepted, broadly accepted; there can always be some flexibility, and perhaps some derogation, but basically there must be some accepted rules of trade and international finance.

For that purpose we need an international body which is, as it were, the keeper of the rules. I would therefore think that on the monetary side you certainly need the International Monetary Fund, with its system of consultations and inter-relations and many of its provisions. I think its rules need to be changed in certain respects, funnily enough not very extensively, because many of the rules and regulations are simply administrative and organizational.

First of all, as I have already said, the place of the United States dollar needs to be changed. We need to get an international fulcrum which is not a national currency. Luckily, this was evolved in the so-called SDR, the Special Drawing Right facility, which was evolved only three years ago, so we have in the nick of time, as it were, an international fulcrum to which currencies can relate, and the United States dollar can be released from its fulcrum position without any great difficulty.

Secondly, one needs provision for more flexibility in the adjustment of exchange rates, which have been pretty sticky, to use the word, and have not moved easily in response to changes in national balance of payments.

The third point I would make, which I think I have already mentioned, is that the rules should provide for reciprocal responsibilities on the two sides, that is, creditors and debtors. The present rules almost entirely allow creditors to do what they want and put the responsibility on debtors to do the adjusting. I think one needs to have some sort of reciprocal relationship.

Going back to the question of exchange rate movements, one of the reasons I liked the American proposals, which were put forward recently in the international forum concerned, was that they stress the desirability of having some objective criteria as to when one should or should not move the value of one's currency.

The great problem over the past 20 years has been that governments are very coy about reducing the value of their own currency. They feel that it is an admission of national failure and that it is something they want to avoid—unlike when the Bretton Woods Agreement was written the anticipation was that the 1930s would be the pattern, when everybody was trying to compete for the lowest possible position of their currency and competitive advantage for exports. But over the 20 to 25 years that the Fund has been in existence, under the rules, and the way

the rules are written, a country has to admit that it has got into fundamental disequilibrium before it can reduce the value of its currency; and this is a pretty nasty thing for a government to have to admit. I think that sort of thing must be changed.

These are the remaining areas that I see. They are not very great, but almost any rules are better than no rules. That is the way I look at it.

The Chairman: Senator Molgat, might I ask a supplementary question at this point? Mr. Plumptre, how does the United States escape the dilemma it is in at the present time? I appreciate your argument that the United States no longer wishes the U.S. dollar to be the fulcrum; yet on this most recent settlement I just do not understand how the United States can escape from the commitment of supporting the U.S. dollar; and in that way the U.S. dollar once again becomes the convertibility factor and goes back again to the fulcrum position.

Mr. Plumptre: Excuse me, but it does not necessarily go back to the fulcrum position. If the United States does not support the value of its own currency, it becomes unlike most other currencies of the world, because there they do support the value of their own currency. This is not a peculiarly fulcrum position; this is just the normal position of a country having to support its own currency when it is under attack. The peculiar situation that we have been under recently has been that the United States has not been supporting its own dollar; the supporters have had to come from Germany, from Britain, from Europe, from Japan. I think that the United States, clearly in this current round of negotiations, is taking the position that it does not wash its hands of the value of the U.S. dollar. But that does not mean that it gets back to the fulcrum position; it only means that it joins the rest of the countries in feeling that it has a responsibility to support it.

The Chairman: I would respectfully point out to you that I think there is a great difference between just "washing your hands" and whether or not you are committed to stand behind your currency. It seems to me that if the United States wished to proceed to get to this multilateral situation we have previously been discussing, perhaps one of the things it is going to have to trade is the fact that it will support its currency.

Mr. Plumptre: They would accept that, the Americans would accept that, too, as a basic necessity for a new system.

The Chairman: Thank you, that is my point.

Mr. Plumptre: There was one little piece in the paper which I left out and which I could bring back in a few minutes, if there were time. I want to comment on the protective nature of the common agricultural policy and of the common tariff. I could do that in a few minutes, if you want me to, but I do not want unduly to prolong the discussion.

The Chairman: What is the feeling of the committee?

Senator Macnaughton: The offer should be accepted, surely.

The Chairman: Yes. Would you please do so, Mr. Plumptre?

Mr. Plumptre: The points I want to make are simply these. When you get to Europe and start to talk with the representatives of the EEC, they will start, if I may say so, to do a bit of brainwashing on you. They will tell you that the Common Agricultural Policy is really not that hurtful, and they will tell you that the common tariff is not that high.

I just want to warn you to beware of this particular sort of brainwashing. First of all, on the Common Agricultural Policy, it is true that some exports of agricultural products still go into Europe, and over the past 10 years their agricultural imports have been gradually increasing, but of course not nearly at the rate of their own economic growth. Therefore, when they point with pride to the fact that there has been some increase in their agricultural imports, please do not believe that the Common Agricultural Policy is not there. It is there; it is a highly complex, highly protective system of agricultural support. In that regard you might look at the next-to-last table in my batch, which I put in for this purpose. This table really is designed to show how far the European countries are still agricultural. I do not want to go through it—you will have time to look at it—but you will see that regarding Canada, as of 1970, let us say, if you look at the second column and the second figure in it, 7.7 per cent of the labour force is in agriculture, as compared to 4.4 in the United States. The European countries are almost all substantially higher than the United States and ourselves. Most of us think of Europe as being highly industrialized. In fact, it is still more agricultural than we are on this side of the Atlantic. This is some of the explanation of the protective canopy which is put over European agriculture by the common agricultural policy.

So, while in regard to some exports, and that includes some of our exports—they will point to you and say "Look, your exports of so-and-so have done very well"—that is perfectly true, but a lot of other exports have not done as well.

Secondly, there are arbitrary decisions at the other end; we never know what is going to happen to our exports. Thirdly, by their high price supports they generate surpluses which they dump into third markets, to the detriment of ourselves, the Americans, the Australians and so on. So don't let them brainwash you by telling you that the Common Agricultural Policy still allows imports in.

The other thing is, do not let them brainwash you by telling you that the European tariff is in fact really a very low tariff. It is for this purpose that I have produced from the Rey Report table 7, at the bottom of the same page, to show that the business of averaging tariffs is highly complex, for reasons which I will not explain. I commend to you No. 3 of the various columns, in the pairs of columns, rather than the others, but they are all highly complex.

This indicates that the EEC—if you look at the right-hand group of No. 3s—has an external tariff, on dutiable items only, averaging 8 per cent, while the United States is slightly higher at 8.5 per cent, and Canada is at 14.1 per cent, so we are the horrid protectionists on the scene. They indicate to you that they are a very kindly group towards imports, through this low external tariff, whereas we Canadians are a wicked protectionist group.

First of all, the position of us Canadians. This averaging refers only to published, most-favoured-nation rates. It therefore excludes all the preferential rates which in

Canada, in certain areas, are very important. That in itself would bring our average substantially down.

Secondly, it does not take into account the fact that in many areas we have important tariff remissions under the Customs Act, that, for instance, the whole of the automotive pact is not included, nor the many special tariff agreements. It takes account of MFN tariffs as published, but the whole area of nil tariffs is not reflected here. So that as far as we are concerned it is suggested that we are a good deal more protectionist, tariff-wise, than in fact we are.

The second point to note is that in the use of non-tariff barriers we are perhaps as pure as any country in the world. I recall in a group which was meeting at Carleton only yesterday that it was brought to my attention that the UNCTAD—you know, this group which is essentially the developing countries—has identified the purest countries in the world from the point of view of non-tariff barriers, and Canada was one of the two purest countries in the world for not using non-tariff barriers to support its tariff protection.

The third point I want to make about this is that the European tariff may average at 8 per cent and they will emphasize that they have a fairly level wall of tariffs. They will hold out to you that they are not like those "horrid Americans" who have tremendously high rates and peaks, and one of their ploys is to say that, "We want to negotiate down the peaks in rates before we negotiate rates in general."

But do not forget that for every peak there is a valley. An average is the averaging of peaks and valleys. A tariff wall with no peaks is also a tariff wall with no valleys. The result is that you yourself can consider whether a tariff wall averaging 8 per cent all along is or is not more protective than it half the wall is 14 per cent and half is 2 per cent. Obviously, the tariff wall which is half 2 per cent and half 14 per cent—which will average out, if I have my mathematics right, at 8 per cent—is a less protective tariff wall than one which is fairly level.

Having said that, I would go on to say that when you look at it from the outside, the European common tariff does not always look like an 8 per cent tariff.

Mr. Lane, of the Department of Industry, Trade and Commerce, kindly supplied to me last night a list of a number of tariffs where Canada did export or might like to export manufactured and other goods. Perhaps I could just leave this with you and it could be circulated.

The Chairman: Thank you.

Mr. Plumptre: This shows the high custom duty rates of the Community for certain Canadian exports; in the agriculture area from 16 to 27 per cent rates; for certain industrial materials from 7 to 16 per cent rates; and in some manufactured products from 15 to 22 per cent rates. These are in areas of interest to Canadian exports. I do not need to read out the list, but perhaps it could be attached to the proceedings or circulated in one way or another.

I believe Mr. Lane, who wrote the letter, will be with you tomorrow. He gave me permission to table this list, but it is his baby, not mine. I just wanted to bring it in as an indication that you must not be bemused when the Common Market people say that they have on average a

low tariff and that, therefore, they are not very protectionist.

The Chairman: Thank you very much.

Mr. Plumptre: Those are a few pebbles to throw, if you want to throw pebbles. Thank you, Mr. Chairman. That was the additional remark I wanted to make.

Senator Carter: Before I ask my final question, I should like to ask a supplementary to Senator Molgat's question with respect to the world monetary system. What role do you see gold and SDRs playing in that new system?

Mr. Plumptre: First of all, SDRs, which you may or may not recall, are the so-called Special Drawing Rights or assets which are held by countries in the International Monetary Fund. Sometimes they are called paper gold. Unlike the ordinary drawing rights, which have been with us since the Fund was started and are intended to provide temporary support for a country whose currency is under attack—you borrow, you repay, the Special Drawing Rights go on forever and are issued, or can be issued, on the first day of January every year to make sure that the supply of basic world monetary reserves increases in response to the demand for expanded trade and so forth—they were born in a situation where we were all worried that gold was an unpredictable and unstable source of growth in world monetary reserves, and it was therefore considered desirable to create a man-made central reserve. It is rather like a world central bank operation. Just as a central bank in a country now creates and provides its reserves for the commercial banking system and the rest of the financial system, and does it at a certain rate to provide for expansion and, possibly, inflation, so on a worldwide basis there was this system of Special Drawing Rights produced for that purpose.

I am quite sure that that is with us to stay. It provides not only for man-made increments to world reserves, but it also provides, as I think I mentioned, the fulcrum, an internationally-created fulcrum, for the world currency system which releases us from the necessity of using a national currency.

As for the future of gold, this is a highly subjective and controversial issue. Personally, I think that gold is for the birds. That is not a sentiment that is highly esteemed in northern Ontario.

The Chairman: Or in France.

Mr. Plumptre: Or in various other countries. I think that gold has been a great source of difficulty and trouble, and I hope and believe that we are on our way to putting it permanently to bed and to rest—probably within the world monetary system, but, as I say, to get away from it as an active agent in any sense in the world monetary system.

The introduction of the so-called two-tier gold market of about four years ago was, I think, the beginning of the end. It was then that the major central banks of the world dissociated the price which they held gold in their own reserves from the market price, and the market price, as you know, has skyrocketed from that time. But that does not worry me. Now, as a matter of fact, the central banks are a bit unwilling to trade gold among themselves at the officially-agreed price. That also does not worry me too much. They have other assets to trade.

Senator Deschatelets: I agree perfectly with what you have just said on gold, but how can we explain this persistent increase in the price of gold on the unofficial market?

Mr. Plumptre: The only thing I can say is that hope springs eternal. In this case it may not be in fact eternal, but at least it will spring for a time. But as long as the world's central banks stand firm on their decision of four years ago, this bubble will collapse. It keeps on blowing itself up in the hope that the world's central banks will reverse and raise the price of gold. As you know, suggestions have been made, particularly in France, that \$100 an ounce is a nice price for gold, and it is a nice price, and people still hope. It is the most speculative market in the world.

Senator Carter: My last question follows on from Senator Grosart's and your reply, Mr. Plumptre, that unless trade barriers are reduced on both sides of the Atlantic, inevitably Canada will be drawn towards and integrated into the U.S. economy. I gather from that, that Canada's destiny, whether manifest or not, is to evolve almost indefinitely with the economic orbit of the United States, and the only way to keep that orbit from narrowing is to "Join up" with the United States in their proposal to the Common Market, and the only way to expand that orbit and get a little farther out is to trade with the European Economic Community.

Therefore, my last question is this: What prospects do you see for that? Do you see a prospect for Canada's developing a sizeable trade or a sufficient trade to offset the policy of the United States? Can we develop a sufficient trade with the Common Market to offset that possibility?

Mr. Plumptre: Not to offset it, but to ameliorate it. But, again, I think I must come back to the proposition that

this is not a bilateral problem but a global problem. The question is not whether the Europeans will reduce tariffs vis-à-vis Canada, but whether there will be a general reduction of trade barriers, both tariff and non-tariff, which will allow a substantial expansion in trade and, in a measure, reduce our short run, because, as you know, the problem of short runs is one that our manufacturers are typically faced with. But, as I have said, it is a global problem and simply not a bilateral problem, and this is why I hope we will be able to give very vigorous support to global initiatives which come from the United States, although not always in accents which we find very attractive.

Senator Carter: You do not think that there are any disadvantages to Canada's teaming up with the United States? Would it not look as though we were developing a trade bloc in North America vis-à-vis a trade bloc in the EEC? Do you see any disadvantages?

Mr. Plumptre: Yes, there are some that are presentational. Quite clearly at this particular moment in time there are many presentational advantages to giving as vigorous support to United States initiatives as I think it is in our interests to give. I recognize the presentational or, if you like, political disadvantages which certainly exist, but I would hope that substance would triumph over form in that regard.

Senator Macnaughton: You might give them the Gray report.

The Chairman: Are there any further questions?

Thank you very much. Your presentation has been most stimulating.

The committee adjourned.

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Publications

FIRST SESSION—TWENTY-NINTH PARLIAMENT
1973

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 3

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UNIVERSITY OF TORONTO

TUESDAY, JUNE 12, 1973
WEDNESDAY, JUNE 13, 1973
WEDNESDAY, JUNE 27, 1973

REPORT OF THE COMMITTEE
Respecting

**Canadian Relations with the Expanded
European Communities**

Index of the Committee's Proceedings
during
Fourth Session of Twenty-eighth Parliament
and the First Session of Twenty-ninth Parliament
concerning

THE EUROPEAN COMMUNITY

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	O'Leary
Deschatelets	Sparrow
Lafond	van Roggen
Laird	Yuzyk—(20).

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 14, 1973:

"With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Molgat:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the said subject in the preceding session be referred to the Committee.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, June 12, 1973

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 4.05 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Cameron, Carter, Croll, Lapointe, Macnaughton, McNamara, van Roggen and Yuzyk.—(10)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canada's Relations with the countries of the enlarged European Communities.

The Chairman submitted to the Committee, for consideration, a proposed "Draft Report" respecting the matter before the Committee. The Committee proceeded to its consideration of that "Draft Report".

At 5.40 p.m. the Committee adjourned to the call of the Chairman.

* * *

Wednesday, June 13, 1973

(8)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 9.05 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Carter, Deschatelets, Lapointe, Macnaughton, McNamara, van Roggen and Yuzyk.—(8)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its consideration of the "Draft Report" respecting Canada's Relations with the countries of the Expanded European Communities.

At 12.33 p.m. the Committee recessed until 1.30 p.m. this day.

At 1.30 p.m. the Committee resumed its consideration of the "Draft Report".

At 3.40 p.m. the Committee adjourned to the call of the Chairman.

3 : 4

* * *

Wednesday, June 27, 1973

(9)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 9:05 a.m. this day.

Present: The Honourable Senators J. B. Aird (*Chairman*), Cameron, Carter, Grosart, Lafond, Laird, Lapointe, McElman, Sparrow, van Roggen.—(10)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its consideration of the "Draft Report" respecting Canada's Relations with the countries of the Expanded European Communities.

The said report was amended and on motion of Senator Lafond *RESOLVED*: that the said report be adopted as the Committee's "Report to the Senate" and that the Chairman present same to the Senate as this Committee's Report on Canadian Relations with the Expanded European Communities.

The Committee *Agreed* that the expression "European Communities," where it appeared in the draft report, should be changed to read "European Community."

On Motion of Senator Lapointe,—*ORDERED*: that the Committee print in booklet form 3,000 bilingual copies of its Report to the Senate respecting the European Community.

At 11:55 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes
Clerk of the Committee

Note: An index of the Committee's printed proceedings, of the 4th Session of the 28th Parliament and of the 1st Session of the 29th Parliament respecting the European Communities, is appended to this Issue immediately following the Committee's Report to the Senate.



July 1973

Canadian Relations

with the

European Community

**Report of The Standing Senate Committee on
FOREIGN AFFAIRS**

Chairman: The Honourable John B. Aird, Q.C.

Deputy Chairman: The Honourable Allister Grosart

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MEMBERSHIP OF COMMITTEE

(As of June 27, 1973)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Croll	Macnaughton
Bélisle	Deschatelets	McElman
Cameron	Lafond	McNamara
Carter	Laird	Sparrow
Connolly (<i>Ottawa West</i>)	Lapointe	van Roggen
		Yuzyk—(18).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Note: The Honourable Senators Choquette, Eudes, Fergusson, Gouin, Haig, Heath, Lang, McLean, Nichol, O'Leary, Quart, Rattenbury, Sullivan and White also served on the Committee.

ORDERS OF REFERENCE

(Fourth Session—Twenty-eighth Parliament)

Extract from the Minutes of the Proceedings of the Senate Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

* * * * *

(First Session—Twenty-ninth Parliament)

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 14, 1973:

With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Molgat:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the said subject in the preceding session be referred to the Committee.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the
EUROPEAN COMMUNITY

TABLE OF CONTENTS

	<i>Pages</i>
I. <i>Introduction: The Importance of the Community to Canada</i>.....	1
II. <i>What is the Community? Where is it going?</i>.....	5
III. <i>Canada-Community Relations</i>.....	11
A. Intergovernmental Relations.....	11
(i) Pursuing the Dialogue.....	11
(ii) Consultative Arrangements.....	12
(iii) A Canada-Community Agreement.....	14
(a) A Preferential or Non-preferential Agreement.....	14
(b) A Comprehensive Economic Co-operation Agreement.....	15
(iv) Provincial Government Contacts.....	16
(v) Head of Government Level Contacts.....	17
B. Business and Investment Contacts.....	17
C. Trade Relations.....	20
(i) Agricultural Products.....	20
(ii) Primary Materials and Manufactured Goods.....	21
(iii) Adjustments Resulting from UK Accession.....	22
(iv) Government Efforts to Improve Trade.....	23
IV. <i>An Interparliamentary Link</i>.....	25

	<i>Pages</i>
V. <i>Closing the Information Gap</i>	27
A. A Community Information Office in Ottawa.....	27
B. Exchange Visits.....	28
(i) to the Community.....	28
(ii) to Canada.....	28
C. Other Canadian Programmes Related to the Community.....	30
VI. <i>Summary of Conclusions and Recommendations</i>	33
Appendix A—Description of Community Institutions.....	41
Appendix B—List of EC Agreements with Non-member Countries.....	45
Appendix C—Statistical Annex.....	47
Appendix D—List of Witnesses heard by the Committee.....	51

I. INTRODUCTION: THE IMPORTANCE OF THE COMMUNITY TO CANADA

The decision of the Committee early in 1972 to examine Canada's relations with the European Community (EC) was based on the belief that not enough attention was being given in Canada to developments in Western Europe and their potential impact on Canada's position in the world community. Although the Government's 1970 foreign policy paper on Europe had called for closer cooperation with Western European countries, it appeared to the Committee that the importance of the growth and development of the European Community justified a comprehensive inquiry by the Committee at this time.

This is not to imply that the Government has been inactive. In 1971, when British entry was appearing more and more likely, an EC Enlargement Task Force was set up in the Department of Industry, Trade and Commerce to assess the impact of enlargement on Canadian trade. A series of visits by Government Ministers to the EC headquarters and the national capitals of member states has taken place over the past two years to bring a broad spectrum of Canadian interests to the attention of the Community. In addition, these visits have had the result of making the Canadian Government better informed about the Community. There have also been several exchanges, or visits, of senior officials between the Community and the Canadian Government. Canadian negotiators worked closely with the British, in particular, during enlargement negotiations in order to try to safeguard Canadian interests as much as possible and succeeded in organizing special access arrangements for certain important export products. Instructions were communicated to Canadian Ambassadors in Western Europe to alert Community members to Canadian interests. Yet the Senate Committee was persuaded that more must be done at all levels of both the public and the private sectors to make Canadians more aware of the Community and more aware of the potentialities for Canada in the development of closer Canadian-EC relations.

The Committee's first concern was to inquire to what degree Canadian interests are involved in the development of the Community. Canadian dependence on international trade is well-known; 20 per cent of the Canadian gross national product (GNP) and 50 per cent of all goods produced in Canada (exclusive of services) are exported. Even before enlargement, the importance of the EC in trade terms to Canada was clear. With the inclusion at the beginning of 1973 of the U.K., Denmark and Ireland, the Community now constitutes by far Canada's second largest trading partner; in 1972, the Nine accounted for 12.4 per cent of total Canadian exports and for more than 45 per cent of all Canadian exports not going to the United States. If Canadian industrial development is to prosper, Cana-

dian exports to these important Community markets must be expanded. The existing commercial, cultural and linguistic ties which Canada has with Western Europe should facilitate this task. Enlargement has, moreover, brought the European Community physically to within 20 miles of Canadian shores—the distance separating Canada's Ellesmere Island from Greenland, an overseas extension of Denmark.

The Committee was impressed by the statement of the Minister of External Affairs, Mr. Sharp, that enlargement and, in particular, British entry, would throw a greater "burden of adjustment" on Canada than on any other country outside the enlarged EC (2:7; 1972).¹ A 1971 study has estimated that over \$600 million worth of Canadian exports to the U.K. would be affected after a transitional period, by more difficult access conditions into the British market due to loss of a zero tariff or a preferential tariff arrangement; this included such major export items as wheat, aluminum, lead, zinc, barley, tobacco and linerboard. For \$450 million of this \$600 million, Canada loses not only the existing preferential arrangement but faces "reverse preferences" which the U.K. grants its new Community partners behind the Common External Tariff (CET) wall. For 90 per cent of a total of about \$300 million of agricultural exports to Britain, Canada will face the highly restrictive Common Agricultural Policy (CAP) of the Community. Further, the conclusion last year of a free trade area in industrial goods between the EC and the non-applicant countries of the European Free Trade Association (EFTA)—Austria, Norway, Sweden, Iceland, Portugal and Switzerland²—will give these countries a competitive advantage in the Community markets and place Canadian products at a disadvantage.

Convinced that the enlarged Community and its future development are of prime importance to Canadian interests, the Committee therefore turned its attention to an examination of the nature of the Community, its institutions, its accomplishments, its shortcomings, the questions it is facing, its limitations and its potential.

The Committee sought to examine how Canada can increase its ties, commercial and others, with the Community. What measures can be taken to bring the importance of the Community to the attention of Canadians—so many of whom already have links of origin, language and culture with member states in the EC? How can Canadians and Community members alike be made aware that if trade polarization takes place around the major world trading entities of the United States, Japan and the EC, Canada would be an "odd man out" or would become part of a North American economic and trading regional bloc?

Paralleling these inquiries, the Committee also looked at a range of Canadian-Community relationships, intergovernmental, business and personal with a view

¹ This, and similar subsequent notations, refer to the issue and the page number of the Proceedings of the Standing Senate Committee on Foreign Affairs during the fourth session of the 28th Parliament (1972) and the first session of the 29th Parliament (1973).

² It is probable that Finland will conclude a similar agreement with the EC.

as to how they might be improved, expanded or strengthened. The strengthening of Canada-EC relations will depend on the extent to which the Community and its members can be persuaded to see how relations with Canada might relate to their national interests, and how Canadians in turn can be persuaded to recognize new opportunities in the European Community. On both sides it must be, in the final analysis, a question of mutual interests.

II WHAT IS THE COMMUNITY? WHERE IS IT GOING?

One of the witnesses during the Committee's hearings, Professor Charles Pentland of Queen's University, described the Community as "an economic giant and a political dwarf" (4.6; 1972). It is, in effect, a complex animal to comprehend and not much has been done until recently to explain it to the Canadian public.

The European Community is the melding into one economic unit of the national economies of nine nations in Western Europe—Belgium, Denmark, France, Germany, Italy, Ireland, Luxembourg, the Netherlands and the United Kingdom. Each member country has retained its national institutions, characteristics and identity. By the Treaty of Rome the original six-member Community began operating in January 1, 1958, and Community institutions were established to formulate and administer the common policies of the member states.³ Membership in the Community expanded from six to nine at the beginning of 1973 with the inclusion of Denmark, Ireland and the United Kingdom.

Until the present, the primary concern of the Community has been in the economic field, although for many in the Community the ultimate goal is political unity. In economic terms, its achievements have been very real. Tariffs between member states have been eliminated and a Common External Tariff imposed on all goods imported from non-member countries no matter where they enter the Community. A Common Agricultural Policy has been progressively introduced which not only supports farm prices and subsidizes production in certain areas, but acts as an important social instrument in the hands of the central administration for unifying the Community. Legislation has been adopted concerning the free movement of goods, labour, services and capital between member countries. The present goal for 1980 is to change this common market into a single market by the transformation of the customs union into a full economic union and by the adoption of a single currency for all member states. This involves the working out of a common strategy for the industrial, regional, technological and social policies of the Community member states, a process in which progress so far has been slow and difficult, affecting as it does so many of the traditional national ways of life.

The successful establishment of the customs union has resulted in impressive growth rates for the member countries. Between 1958 and 1970 the gross product of the Community increased by 90 per cent (as compared to 61 per cent for the

³ See Appendix "A" for a brief description of the Community institutions and the two other Communities which these institutions serve—the European Coal and Steel Community and the European Atomic Energy Community.

U.S.), and the average real income per capita of the citizens of the Six more than doubled. The annual production figure for the Community for 1971 has been given as about \$700 billion, as compared with over \$1,000 billion for the United States. But since the Community is relatively a larger importer than the United States (importing close to 10 per cent of its gross product, whereas the figure for the United States is only 4 per cent), the enlarged Community has emerged as the world's largest trading entity. In fact, it constitutes an import market fifty per cent larger than the United States.

In international trade terms, however, the growth and success of the Community has raised the threat of trade bloc confrontation between the United States, Japan and the Community. Developed industrialized countries outside the EC see dangers to world trade liberalization in the vast increase in intra-EC trade (rising from 35 per cent to 50 per cent between 1960 and 1970), in the Common External Tariff, in the protective Common Agricultural Policy and from the increasing network of preferential trading arrangements (often discriminatory to non-member countries) which are being made by the Community. These latter range from free trade agreements with the non-member industrialized nations of Europe to preferential trade agreements with former colonies in Africa, the Caribbean and elsewhere. If access to this vast and expanding market is not open on reasonable terms to exporting industrialized countries, the risk of retaliatory protective measures on their part becomes more likely. The economic power of the Community, therefore, imposes on it a heavy burden of political responsibility which it does not appear to be in a position to assume and which it may not yet be able to discharge.

The Community has had a significant impact on Europe, not only in economic terms, but also by bringing a new sense of security and by contributing to a psychological transformation. World War II left Europe fragmented and divided by deep national scars. On the broader international scene the confrontation of the two superpowers—the Soviet Union and the U.S.A.—had the effect of making the middle-sized and smaller states of Western Europe feel powerless. The success of the Community has changed this, providing a new European spirit, a revival of self-confidence, a strength of purpose and an independence of thought, enabling Europe to resist, if it wishes, the gravitational forces of the super-powers and to stand on its own.

It is not yet clear what implications this will have for the post-war idea of an Atlantic partnership which Canada has traditionally supported. The Community's successful existence has meant that it is hardly conceivable now for the nations of Western Europe, in many cases historic enemies, to go to war against each other again. This sense of unity was assisted by a solidarity of purpose vis-à-vis Eastern Europe within the framework of the Atlantic Alliance. Now that the "Communist threat" is being perceived differently, will EC solidarity necessarily depend on an Atlantic framework?

While the Community's permanent institutions, especially the Commission and the Council of Ministers, have been adequate to the task of administering and

directing the "economic giant" up to this point, there is general admission that some innovations and changes in structure and decision-making are essential to deal with the problems of tomorrow, including those relating to external as well as internal issues. As several Committee witnesses have pointed out, the Community has reached the limits of the technical phase of its development, notably in implementing such measures as the elimination of internal tariff barriers among member states. The first elements of the specific programme laid down in the EC treaty of Rome have been achieved. Moreover British membership, without which real European union could be considered incomplete, is now an accomplished fact.

Bigger and more complex problems lie ahead. At its October summit meeting, the heads of state or government of the member states:

set themselves the major objective of transforming, before the end of the present decade the whole complex of the relations of member states into a European union.⁴

In particular they re-affirmed their determination to achieve economic and monetary union by 1980.

If the Community is to go ahead with this rather specific and severe deadline, it will obviously be face-to-face with the basic question of how to reach this goal within the limitations of the present decentralized structure. The effective harmonization and integration of separate national policies of the Nine concerning fiscal, monetary, budgetary questions and questions of industrial strategy would appear to necessitate considerable centralized planning and decision-making at the Community level. Yet such policies are at the very core of each member state's powers, jealously guarded as attributes and instruments of national sovereignty as well as being integral elements of domestic politics.

Witnesses before the Committee in Ottawa and in Brussels agreed that nationalism in Europe today appears to be more rather than less vigorous than several decades ago and that there is a parallel decline in the supranational idea. As Mr. Schaetzel the former United States Ambassador to the Community said, "The political dream, the idea of a federated supranational Europe . . . is not here and there is no prospect that it is going to be here soon." (I:14; 1973). Dr. Pentland observed that the resulting system for quite awhile will be "a new political animal . . . neither a conventional grouping of states . . . nor a single state but a mixture of the two" (4:7; 1972).

Canadians, aware of their own constitutional problems under the Canadian federal structure and of the current difficulties in finding a new formula for the sharing of powers with the provinces in certain areas of jurisdiction, can feel a sympathy and understanding for the Community's dilemma. Yet Canada is already an operating federation, a common market, a monetary union enabling the free movement of goods, capital and people from province to province. The central powers are clearly set out by the constitution and the federal government possesses

⁴ Clause 16 of the official communiqué of the Community's summit meeting Paris, Oct. 19, 20, 1972.

monetary and fiscal powers as well as residual powers which enable it to exercise a centralized directing economic authority.

On the other hand, the present Community system appears to involve a more horizontal sharing of powers, a much more pragmatic, tentative process. In effect, instead of a conventional transfer of competence from the member states to the central institutions as envisaged by the early architects of the Community, there is now a joint exercise of sovereignty involving in the legal sense only a limited dilution of national sovereignty. Through common decision-making at the Council of Ministers level or at the level of the Permanent Representatives, or through inter-governmental bargaining at the level of the Commission and national officials, a coordinated exercise of national and Community power takes place. Decisions made can become a standard for future national action. In addition, there appears to be a growing body of support for the concept of "federal fidelity" in law, by which an obligation is thought to rest on the member state by virtue of the Treaty of Rome to preserve a degree of faithfulness or uniformity with Community decisions in the drafting of national laws.

In regard to the coordination of foreign policies of the member states, a similar process of inter-national rather than supra-national decision-making is likely to evolve. The communiqué issued after the Summit meeting of the Nine in October, 1972 urged further progress in the coordination of foreign policies and intensified consultations by the foreign ministers. They were directed to meet four times a year, in addition to any meetings of Community institutions in which they might participate, in order to try to formulate common positions on international questions. While it has proved possible to work out a coordinated foreign policy viewpoint of the Nine at the Conference on Security and Cooperation in Helsinki and at the United Nations, the present level of cooperation among the member states has been achieved only on relatively peripheral foreign policy issues. In areas of commercial policy where the Commission has a clear-cut responsibility to administer the Common External Tariff, the Community must speak as one voice at international conferences such as at the forthcoming GATT multilateral trade talks.

The slow-moving progress toward integration is almost unconsciously propelled by a process of political osmosis which results from the constant co-determination by the member states of what is happening both at the Community level and in the other member states. Whether it will be an adequate process for the achievement of the difficult goal of full economic union or whether the goal itself will provide an impetus for closer forms of integration is still unclear. Mr. Schaetzel described the process toward gradual Community integration as:

a kind of glacial force which is moving it along and may well be moving the people in it along despite what they want to do. (1:14; 1973)

But he concluded that the big question will be whether there will be "enough political will and enough momentum in Europe" to surmount the resistant nationalism which the Community will face.

The other wider problem with which the Community is grappling is what sort of society it will become. One of the Community Commissioners, Mr. Finn Gundelach, posed these questions in Brussels to the Committee:

Will the Community remain a formalized economic unit administered by skilful bureaucrats in Brussels? An advanced mercantilist society concerned only with technology, export sales and growth rates?

Or will the Community gain 'a human face' and be concerned with broad human and social dimensions, in addition to economics, in the life of its citizens?

Will the Community become an inward-looking protectionist grouping concerned mainly with economic self-sufficiency?

Or will it be a liberal outward-looking society thinking and acting responsibly in world terms?

Will it, in the words of the October Summit Communiqué, be able 'to make an original contribution commensurate with its human, intellectual and material resources.'

These are fundamental questions with which the Community leaders and the heads of governments are concerned. Having completed its initial stage of development, and aware of its own potentialities, the Community seems hesitant to go forward with no precedents to guide it and no clear-cut integration mechanism to direct it. Undoubtedly national objectives will often be at variance with Community objectives and sacrifices and compromises are inevitable.

It is the Committee's view that the Community can develop 'a human face'. The Summit Conference in October 1972 revealed a general and deepening awareness that not only should Europe play a contributing and responsible role in the world but that it should be defining a new European social consciousness. The same theme was stressed by the President of the Commission in his programme for 1973. This will undoubtedly mean that the Community will pay greater attention in the future to social and regional policies, to such matters as the quality of life, environment, employment and living and working conditions.

Whether these social concerns will coincide with a liberal and outward-looking policy in the Community's foreign and trade relations is not yet clear. If the protection of the European worker should become an overriding concern, this could conceivably lead to protectionist barriers against outside countries' goods. On the other hand, the Committee notes that the Community in its Summit communiqué acknowledged its international responsibilities "to be open to the world and for progress, peace and cooperation".

III CANADA-COMMUNITY RELATIONS

A. Intergovernmental relations

(i) *Pursuing the Dialogue*

The Committee has noted with interest that Canada, along with the United States and Japan, was identified in the Summit communiqué last October as a country with which the Community "is determined . . . to maintain a constructive dialogue."⁵ Yet given the complexities of the Community's decision-making process, it is difficult to know where or how to approach this dialogue in order to present the Canadian viewpoint most effectively.

The question is whether input in the separate national capitals which may be translated into decisions by the national ministers at the Council of Ministers is more or less effective than input at the Commission headquarters in Brussels. There is, in addition, the important role of the Committee of Permanent Representatives to consider. It has been said that these latter are the real technocrats in Brussels, and that nine out of ten questions that have cropped up in recent years have been settled by these Ambassadors of the member states in Brussels without their ministers having met to consider the problem.

In its hearings the Committee found an interesting difference of viewpoint as to whether the Commission or the Council of Ministers should be considered the more dominant and influential body. It agrees with several of its witnesses that a combination of techniques—known commercially as 'double-banking'—is necessary to further Canadian relations with the Community. According to Professor Pentland, it is a matter of "dealing with the states individually and trying at the same time to build up a set of strong new links with Brussels . . ." (4:7 ; 1972) Often it may be a matter of judgment as to where the power resides on the particular problem of concern. Mr. Sharp reported that during his visit to Europe last year he visited both the ministers of the major countries and the Commissioners at the Community headquarters and Mr. Gillespie the Minister of Industry, Trade and Commerce, has recently done the same.

It is clear that since the interests of the individual member states are inevitably reflected in decisions at the Community level, the substance of subjects of concern to Canada must be developed with the member states themselves.

In the national capitals it is important to ensure that ministers are aware of Canadian policies on EC matters as well as on Canada-member states relations. In addition, systematic discussions on the issues with officials in each member state alert them to the background of the Canadian attitude on relevant issues

⁵ October Summit communiqué, Clause 12.

coming before the Council of Ministers. The identifying of Canada, along with the United States and Japan, in the October communiqué was undoubtedly due to the instruction from the Department of External Affairs to all Canadian missions in the Community last year directing them to make timely and simultaneous presentations regarding Canadian interest in developing relations with the EC.

Whether the presentation of a Canadian viewpoint is made in Brussels at the Commission level or in the national capitals, or both, in the Committee's opinion the matter of correct timing is of obvious importance. Once a decision has emerged from the complex decision-making machinery, it would seem to be almost impossible to change it.

It was evident to the Committee at an early stage in its inquiry that a separate Canadian Ambassador accredited solely to the Community would be necessary if Canada's relations with the EC were to be pursued as forcefully as possible. Although there has been a Canadian mission accredited to the Community for several years, the Canadian Ambassador to Belgium has been dually accredited to the Community as well. The Committee was pleased therefore when the Government appointed separate ambassadors to the two posts and last December named Mr. J. C. Langley the first full-time Canadian Ambassador to the Community. The ambassador, who impressed the Committee as being capable and experienced, is assisted by an able staff of eight officers. In addition, the Committee was pleased to learn that the Canadian Wheat Board has opened an office in Brussels.

(ii) Consultative Arrangements

The Government's 1970 foreign policy paper on Europe recommended "as a matter of some urgency . . . the development of appropriate consultative arrangements" between Canada and the EC. During the past two years there has been a series of Canadian ministerial and official visits to the Community intent on promoting Canadian interests.

In June 1972 an interdepartmental delegation of senior officials from Ottawa went to Brussels to explore among other things whether Canada-Community relations could be strengthened through the development of new arrangements for consultations. The Committee recognizes that regular consultations with the Community have merit.

There appear to be several types of consultative arrangements which might be appropriate:

- a) a committee at the ministerial level patterned after the Joint United States-Canada Ministerial Committee on Trade and Economic Affairs or the Canada-Japan Ministerial Committee.
- b) a joint committee ('commission mixte') composed of an appropriate mix of ministers and officials (depending on the issues under discussion) and set up under the terms of an economic agreement between Canada and the Community.
- c) a more informal but regularized consultative arrangement along the lines of those established between the United States and the Community. These

meetings led by the U.S. Undersecretary of State for Economic Affairs and the EC Commissioner for External Trade were set up by "gentleman's agreement" to take place on a regular semi-annual basis along fairly structured lines and intended to deal with short-term access problems and trade irritants between the two parties.

The establishment of a joint ministerial committee poses almost insuperable difficulties for the Community. No such arrangement has been worked out with any country and, until a much higher level of political integration has been achieved, the Community has no mechanism for designating a national minister to represent the other national ministers in discussions with a minister from a non-member country. Nor would the Community be ready to delegate the necessary authority to the Commission such as to make it and its members valid negotiators. Attractive, therefore, as a joint ministerial committee appears at first glance, the Committee has had to recognize that the Community has not yet developed to the stage where this would represent a feasible consultative arrangement.

A joint committee of ministers and/or officials between the Community and Canada may eventually be the most satisfactory arrangement for consultations. However, as Community agreement to the establishment for such a forum is, in practical terms, dependent on the conclusion of a bilateral agreement to give it substance, such an agreement (which is discussed below) may take several years to negotiate. The Committee urges the Government to seek the establishment of such a joint committee and to press for an economic co-operation agreement with the Community which would give substance and structure to such consultative arrangements.

The informal "gentleman's agreement" type of consultations undertaken semi-annually by the United States and the Community does not fully meet Canadian requirements. There is no Canadian official with political status comparable to the U.S. Undersecretary of State for Economic Affairs. Further, it might be questioned whether a Canadian Cabinet Minister should meet an EC Commissioner, a quasi-official, in regular consultations.

Pending the achievement of a long-term economic co-operation agreement with formal arrangements for consultation, it is the Committee's judgment that the Government, faced with these difficulties, has found an adequate technique for consultations in arranging meetings of ministers and officials as appropriate in Brussels or Ottawa. This does require, however, on the Canadian side, a persistent and insistent programme for advocating Canadian interests. The Committee's endorsement of the present informal consultative practices is predicted on two considerations:

- a) continued effort and pressure to achieve a broad economic co-operation agreement with appropriate consultative arrangements; and
- b) in the interim, continuous initiatives by the Canadian government and an imaginative search for ways of developing new links with the Community.

(iii) *A Canada-Community Agreement*

With British entry, Canadian preferential trade arrangements with the United Kingdom have been automatically terminated by the British (although still retained by Canada). While Canada has existing bilateral trade agreements with the other Common Market countries except the Federal Republic of Germany, they are limited in scope and now largely out-of-date. Even though certain trading authority remains with the member states of the Community, the evolution toward a common commercial policy in the Community means that these bilateral agreements become less and less relevant.

It would be appropriate for Canada to have a separate agreement with the Community to ensure that the EC will differentiate clearly between Canadian interests and those of the United States. Although some Europeans (and even Canadians) had previously assumed that the Community's view of the United States would more or less apply to Canada as well, surely this idea is now discredited. Canada's interests and viewpoints coincide with those of the United States on some issues, but differ distinctly on others, in agricultural as well as industrial and resource exports

a) *A Preferential or Non-preferential Agreement?*

In considering what type of agreement Canada might seek, the Committee has concluded that it would be unwise to seek a preferential agreement with the Community. In fact, the Committee was advised in Brussels that Canada would not be successful if it sought one. As several witnesses pointed out, the intent of the Community is to make Europe a cohesive unit. The whole thrust is European, a concept which they feel would be negated by granting further special relationships around the world. (They make an anomalous exception of former colonies). Moreover, the Community has shown itself unwilling to allow efficient Canadian agriculture to jeopardize the Community's high cost heavily subsidized agricultural structure, which has for them an important political and social connotation. Finally the Community would be unlikely to upset its relations with the United States by offering a preferential relationship to Canada.

It would also be unwise of Canada to seek such an arrangement, in view of the importance of its export trade with the United States. The Committee agrees with the realistic assessment of Mr. Forrest Rogers, Financial Adviser to the Bank of Nova Scotia, who stressed "the high proportion of our trade and business relations which is with the United States." When asked if Canada should seek a preferential arrangement with the EC, he replied that he just did not

see how we can expect the United States to sit calmly by while we attempt to establish anything in the nature of a significant special relationship with Europe. (5:9; 1972)

Mr. A. F. W. Plumptre, Canadian representative on the High Level OECD trade talks in 1972, brought out clearly that a preferred arrangement with the Community would discriminate against the United States, Japan and other impor-

tant trading partners with whom Canada had in total an export trade in 1971 of \$15.2 billion. By contrast, Canadian exports in the same year to the nine Community countries amounted to about \$2.5 billion. Mr. Rogers and Mr. Plumptre both observed that projected growth rates for Europe in the next decade were not as high as those for the United States or Japan. Further, the United States buys 85 percent of all Canada's fully manufactured exports: Mr. Plumptre concluded:

What I am obviously emphasizing here is the degree of exports which we put at risk if we discriminate against the United States. (2:7; 1973)

There was a suggestion by one Canadian witness that Canada might go beyond seeking a preferential relationship with the EC and try to gain some sort of associate relationship which would resemble the free trade area the Community has recently formed with Austria, Sweden, Iceland, Portugal, Norway and Switzerland. Apart from the same objection which can be made to a preferential trading arrangement, such an option is not open to Canada because such Community arrangements are accessible under the terms of the Rome Treaty only to European states.

On the basis of these arguments, it is the Committee's judgment that the conclusion of a preferential agreement or associate arrangement with the Community is not in the best interests of Canada.⁶

The Committee agrees that "if any one country has a built-in interest in a truly multilateral system, Canada does." (1:14; 1973)

More than 20 percent of Canada's gross national product stems from its export trade, compared to under 9 percent for the Community and only 4 percent for the United States. Canada's interest clearly lies in world trade liberalization.

At the forthcoming multilateral trade talks under the GATT which are scheduled to open later this year in Tokyo, Canadian policy should be to press persistently and firmly for further reductions in tariff barriers, agricultural restrictions and non-tariff barriers. The Committee is firmly of the opinion that the best procedure for Canada is to urge substantial reciprocal reductions of barriers of all kinds, not only by the European Community, but by the other major trading entities as well.

b) A Comprehensive Economic Cooperation Agreement

Instead of pursuing a policy of seeking a Canada-Community agreement on a limited trade basis, the Canadian Government has recently sought to negotiate a comprehensive agreement covering broader areas of economic cooperation. In the continuing talks concerning such an agreement, the long-term prospects for trade in energy and resource materials, including the processing of nuclear fuels, are being discussed. Also included are potential non-tariff barriers such as government procurement policies, countervailing duties, coastal shipping

⁶ A survey of the existing EC agreements with non-member countries is set out in Appendix "B".

regulations, export subsidies and concessional financing. Additional items in the discussions have been consumer protection, copyright laws, protection of the environment, standards and quality control and the industrial application of science and technology.

Given the movement toward economic integration among the Nine, it is appropriate to seek to establish a framework for cooperation on a Community-wide basis. Many of these subjects are outside the jurisdiction of the GATT, but could become important ways of furthering mutual interests. Such an agreement would complement the GATT, not substitute for it.

Concerning this Canadian initiative Mr. Sharp has stated that while Community representatives may not necessarily be in a position at this stage to pursue all these subjects, "There is no question that the dialogue is well and truly launched." The Europeans generally, he said, have been open to the Canadian proposal, the objective of which is "to reinforce bilateral relations with the member countries of the Community through creating an appropriate framework linking Canada and the EEC as such."⁷

The Committee endorses the Government's conception of a comprehensive economic non-discriminatory cooperation agreement. Such an 'umbrella' agreement, if concluded, would provide broad scope for co-operation on economic issues of mutual interest beyond the possibilities of a regular trade agreement. Although the European Community is understandably preoccupied with internal problems associated with the membership of three new countries, Canada is itself having to make major adjustments due to British entry. On this basis, the Canadian concept merits serious consideration and the Committee hopes this initiative will be pursued vigorously by both sides.

(iv) *Provincial Government Contacts*

The Committee notes the increasing interest being shown by provincial governments in developing new contacts with the Community. Several provinces have maintained provincial representatives for a number of years in some Western European capitals. But a new impetus has been given by British entry into the Community to the development of closer contact, particularly in investment and business fields at the provincial level. It will be important to develop ways of coordinating these increasing federal and provincial activities, if they are to be fully effective.

Premiers of several provinces have recently made tours of national capitals of the Community seeking investment for their provinces' economic expansion. Provincial trade missions including businessmen and manufacturers have actively sought the larger markets they need in Western European capitals. The Committee considers that such increasing contacts will give further momentum to the development of closer Canada-Community relations.

⁷ "Canada, the EEC and the United States," speech to the Canadian Institute of International Affairs, Toronto, 18 November 1972.

(v) *Head of Government Level Contact*

It is in Canada's interest to reiterate to Western Europeans, in the clearest terms, that there are two North American countries and that there are many significant differences between the two, including the basic political systems, Canadians need to have the importance of the European Community to Canada dramatized at home. The series of recent visits by Canadian Cabinet Ministers and provincial leaders to the Community and the member states, and the visits to Canada of Commissioners of the Community and European ministers have been valuable and necessary. But inevitably these developments have not had a noticeable public impact, nor have they given Canadians in general an indication of a Government priority in relations with Western Europe.

The Committee is convinced that an official visit by the Prime Minister to the European Community and, if possible, to member states is of vital importance in the continuing development of Canadian-Community relations.

In December 1972, the Prime Minister visited London, to talk about Canada and the Community. The visit highlighted the importance the Canadian Government was giving to British entry and underlined Canada's interest in evolving closer economic and trading relations with the Community. In the Committee's opinion this was a useful reflection of the Government's new policy commitment but only the beginning of a necessary policy thrust. It is worth noting that since taking office, the Prime Minister has made various formal visits in Asia, to the Soviet Union and to the United States. Aside from his recent visit to the United Kingdom, he has made no formal visit to any of the member states in the Community.

It is the opinion of the Committee that a Prime Ministerial visit to Brussels would not only serve to maintain and accelerate the momentum toward closer relations with the Community and its member states but would vividly illustrate to Canadians the potentialities of such a relationship. At the same time, since improved Canadian relations with the Community are dependent on the development of substantive industrial and economic relationships with the individual member states, it is highly desirable that a head-of-government visit to the Community headquarters in Brussels be linked to visits to European capitals of member states.

B. Business and Investment Contacts

The Government's 1970 policy paper on Europe recommended "closer ties between Canadian and European business and financial groups", but the Committee considers that, on the whole, Canadian business circles have to date been slow to appreciate the opportunities and the potentialities of the European Community. Only now when British entry is a reality are there signs of increased awareness of these European markets.

There appears to be a reluctance on the part of Canadian businessmen to penetrate Community markets. This may be due partially to unfamiliarity and

distance. The natural business and economic axis in North America runs north and south. Some exporters are slow to cope with foreign languages, with largely unknown local conditions, with complex currency exchange rates, with metric specifications and with more complicated transportation, customs and shipping procedures. There has been a natural propensity for the closer and more accessible American market.

Yet the Committee is convinced that Western European markets offer Canada the most important prospect for diversification of its exports, particularly of semi-processed and manufactured goods. There seems to be general agreement in Canada that successful industrial strategies involve the identification of specialized fields of manufacturing, and the concentrated development of lines sophisticated, often technologically advanced products. In order to prosper, such industries will require economies of scale and longer runs unavailable in the small Canadian domestic market. Sizeable markets of a developed consumer-oriented kind are essential; the populous (253 million) enlarged Community is such a market.

Looked at positively, Canadian businessmen would appear to have certain advantages over many other competitors outside the Community at the moment; advantages such as close cultural and linguistic ties with many Western European countries due to past links and to more recent immigration patterns; traditional existing business connections with the U.K. which could now serve as a launching pad inside the Community; and a recognition that Canada already has competence and specialized know-how in certain fields of advanced technology. Canadian exports to the U.K. will enjoy a five-year advantage over American, Japanese and other non-Commonwealth competitors since the full impact of the CET will only replace the mainly lower preferential tariff after a transition period of five years. In addition, because of the revaluation of the European currencies in relation to the U.S. and Canadian dollar, Canadian exports are now more competitive in Europe.

It is worth noting, however, that Canadian subsidiaries of multinational companies to date have not been used by their parent companies as the instrument for expanding operations into Europe.

The Committee would like to see more attention given to facilitating Canadian business contacts with Europe through the development of export partnerships or consortia among various small Canadian firms to handle the particular marketing, transportation, warehousing, and distribution problems arising from exports to the Community. This can result in increased efficiency and decreased costs.

In addition to the pursuit of the traditional direct export sales techniques, the Committee notes that there are other possibilities for increased penetration of Western European markets. These include the establishment of subsidiary firms within the Community border, an acquisition of participation in an established European firm, the concluding of joint venture arrangements, or the securing of licensing arrangements under which the Canadian product would be manufactured in Europe in return for a license fee and royalties. In these cases, although the product is manufactured abroad, there are direct benefits to Canadian firms which

not only receive fees for the technology or know-how but in most cases will supply key Canadian-made components. Indeed joint enterprises would facilitate the future expansion of trade with the Community. Companies with Canadian links are more likely to import familiar Canadian products than those from another source.

Even more important in this regard may be a new, less familiar but growing investment technique which could involve private economic and industrial interests in both Canada and in the EC countries in longer term joint production and joint development ventures involving capital sharing and technology trade-offs.

Through the NATO Industrial Advisory Group, Canadian businessmen have access to information concerning high technology projects undertaken by that organization, and have the opportunity to bid on such contracts. The Committee has been told that as a matter of practice, such Canadian bids have been in conjunction with American firms. Canadian firms might look into the possibility of entering into consortia instead with European companies bidding on the same projects. Europeans might welcome the technological input from Canada and certainly this would provide a basis for further expansion of Canadian business contacts in Europe.

Another aspect of Canada-European business co-operation which should not be overlooked is the conclusion in Canada of licensing arrangements with European firms. A recent example, although at a provincial government level, involves a rapid transit system developed in Germany. In this case the Province of Ontario is granted the rights and royalties if the West German technology is used elsewhere in North and South America.

The Committee considers that the role of Canadian trade associations in helping to publicize and promote the possibilities of trade with Europe is important in the whole process of developing closer relations. In many cases, associations have been involved directly in seeking to project the interests of their firms abroad and, in conjunction with the Government, have supported promotional missions to Europe. Their contribution and participation add strength to the whole effort.

Originally the United Kingdom was the major source of development capital for Canada, although vast capital inflows from the United States have since displaced it as the primary source. However substantial financial and investment ties still exist between Britain and Canada. In spite of post-war dependence on American capital sources, Canadian borrowers have, in recent years, begun to look more frequently to Europe for funds and as a major market for Canadian security issues. Several provincial governments have also turned to Europe's money markets in search of development capital for provincial projects.

Canadian attempts to find an alternative source of capital is important in the long-term as well as in the short term. Although European investment in Canada cannot compare with the massive figure of post-war U.S. investment which represents 80 per cent of all non-resident investments, in recent years

there has been a distinctly higher rate of European investment which now represents 16 per cent of the total and has been accompanied by a slight reduction of the U.S. percentage.⁸

One of the major advantages to the Canada-Community investment relationship will lie in the sizeable Canadian investment in the United Kingdom. It is clear that London will become the financial centre of the expanded Community. The existing financial ties should provide key opportunities in both the UK and other Community financial centres for Canadian investors to accelerate the trend, noted since 1968, of increased Canadian investment in the EC.

Canada has been thought of in Europe as mainly a supplier of resource-based exports in a basically untransformed state—metals, minerals, forest and agricultural products especially. If Canada is to change or modify this European assessment and become an acknowledged source of semi-processed and manufactured goods, it must come about not only by Canadian exporters paying more attention to European markets but through imaginative Canadian investment initiatives such as joint venture techniques within the Community.

C. Trade Relations

In general terms, Canada's exports to this expanding Community markets have not kept pace with competitor nation's exports. While the absolute level of Canadian exports to the Six has risen in the past 15 years, (from \$422 million in 1958 to \$1.1 billion in 1972) Canada's share of this market has declined. In contrast, other world trading nations such as the United States and Japan have increased their share, often dramatically, and have followed the trend in increased export of manufactured and semi-processed goods while Canadian exports to the Community continued to concentrate on primary products. In the past year, 1972, Canada lost its traditional surplus balance of trade position with the Six and had a trade deficit of \$22 million.

With the U.K., Canada's major market in the enlarged Community, exports have increased at an even slower rate (\$728 million in 1958 to \$1.3 billion in 1972) than to the Six despite the advantage of the preferential tariff. In 1972 Canada still had a surplus trade balance with the U.K. of \$360 million, but this figure has been declining in the last few years.

(i) *Agricultural Products*

From a Canadian point of view one of the most difficult features of the structure of the European Community has been the protective Common Agriculture Policy and market organization. With British entry, the adverse impact of this policy on Canadian agricultural exports will be considerably extended. The CAP has the effect of stimulating often inefficient production within the Community, removing the competitive advantages of imports and at times subsidizing

⁸ 1969, the last year for which figures are available.

Community exports to third countries. While still a net importer of cereals, the Community has become a net exporter of wheat and barley, the two cereals in which Canada is most vitally concerned. Some forecasts suggest that by 1980 the Community will be a net exporter of all cereals. In particular grain production is expected to increase significantly in Britain.

On the whole, Canadian agricultural exports to the EC have done less well in the period from 1958 to 1970 than American agricultural exports—a growth of 70 percent as compared to 188 percent. Agricultural products accounted for slightly more than one-fifth of total Canadian exports to both the EC and the UK in 1971 (10 percent or \$192 million to the EC and 13 percent or \$300 million to the UK). Mr. Pepin, the then Minister of Industry, Trade and Commerce, told the Committee that he estimated that 90 percent or \$270 million of Canada's agricultural exports to Britain would be affected eventually by the highly restrictive CAP which will be progressively applied on the UK market. (3:8; 1972)

The effect of increased wheat production in Europe on Canada will probably be mitigated because of the continuing need in Community markets for high quality Canadian-type wheat, but it is possible to anticipate an almost total loss of the Canadian feed barley market as a result of increased production and some potential changes in the CAP regulations. This, as valued in terms of the 1971-72 crop year, would mean a loss of \$80 to \$85 million annually in net returns to producers in Western Canada plus another \$35 million lost to the handling and transportation industry. Exports of Canadian tobacco, cheddar cheese and apples to the United Kingdom market are also likely to suffer adverse effects.

There is unlikely to be a radical change in the Community's agricultural policy because of its social and political significance in each member country. However, there appears to be a growing awareness in certain Community countries and in the Commission itself that the CAP has had unwelcome results in some areas and has aggravated economic and financial difficulties. While Canadians recognize the political importance of the CAP to the Community, a more satisfactory arrangement for Canada would be for the Community to adjust or replace its existing agricultural price support programs by more direct arrangements of supporting farmers' incomes, thereby doing away with the emphasis on subsidies for export production.

At the GATT multilateral trade talks, Canada should set forth its case plainly against the damaging effects of the CAP. The Committee hopes there is a basis for limited optimism that the Community will come to these trade talks prepared to make some modifications in the CAP.

(ii) *Primary Materials and Manufactured Goods*

Although Canada did less well than its major rivals between 1958 and 1970 in capturing its share of the burgeoning Community market, gains were made primarily in exports of Canadian primary products. By 1970, 48 percent of total Canadian exports to the Six were primary products—this figure rises to 63 percent if agricultural products are included. Almost one-half of the value of Canadian

exports to the UK (\$700 million of a total of \$1,480 million) was in metallic and other minerals and their products, including nickel, copper, aluminum ingot, iron ore, zinc, asbestos and molybdenum. Forest products made up another 20 percent or \$250 million worth.

In contrast, as a proportion of total Canadian exports to the UK and the Six, the percentage of manufactured goods has been small and has tended to fluctuate. In 1972, 8.5 percent or \$111 million of exports to the UK and 14.9 percent or \$165 million worth of exports to the Six were in finished goods.

The rate of growth of Canadian semi-fabricated and manufactured exports has increased between 1958 and 1970, but at a slower rate (234 percent) than that achieved by all developed countries including Japan and the United States (327 percent) and was much below the over-all growth rate in EC imports of manufactured goods (377 percent) during this period.

It is clear that Canadian selling in Community markets has not been aggressive enough. For example, comparison of Canadian and Japanese sales on the West German market between 1960 and 1970 reveals that whereas in 1960 Canada had 2.1 percent of the market to Japan's .07 percent, by 1970 Japan had captured almost 2 percent and Canada's had dropped to 1.7 percent. The Japanese exports were 80 percent manufactured goods, no mean feat when it is recalled that many of these goods are directly competitive with domestically produced German goods as well as with the products of other member states.

With the U.K., in 1972 Japan increased its sales by 66 percent, mostly in highly processed goods as cars, photographic equipment, television sets, motorcycles, tape recorders, etc. In the same year, however, Canadian exports to the U.K. actually decreased due to a loss of sales in processed goods such as aircraft and parts, automotive products, communications equipment as well as in primary products such as metal ores and wheat. Beginning this year, certain Canadian secondary industries exporting to the U.K. will be affected significantly as the special preferential advantage is being removed. This is especially true of certain chemical products and textiles where the CET is high at 15 percent.

The Community markets for sophisticated manufactured goods are increasingly competitive but they are nevertheless substantial. In addition to the \$17 billion intra-Community trade in manufactured goods, in 1971 the EC imported \$10 billion worth of finished goods. Canada's share was only one percent or \$98 million. Obviously a more vigorous and concentrated effort is needed to penetrate with Canadian manufactured goods the marketplaces of the world's largest buyer and seller. Particular efforts will have to be made to balance the expected decline in Canadian exports to Britain of most manufactured goods due to the loss of the Commonwealth preferential tariff.

(iii) Adjustments Resulting from U.K. Accession

As was noted above, Canada has retained the preferential tariff arrangement for British imports, although the U.K. was obliged to drop the Commonwealth

preference on joining the Community. The Canadian decision has an obvious and positive effect for the Canadian consumer on prices of British-made goods. However, if the Community objected strongly to this decision which gives an effective export advantage to one member of the Nine, the Canadian Government might consider dropping this preference in return for more favourable access for specific Canadian products facing serious difficulties.

During the enlargement process of the Community, the Canadian attitude remained a positive and constructive one and was recognized as such by the United Kingdom. But, as has already been stated, it is estimated that one-half of all Canadian exports to the United Kingdom (\$1.3 billion worth of goods annually) will be affected adversely by British entry. Negotiations have already begun between the Community on the one hand and Canada, the United States, South Africa and Australia on the other to determine (under Article XXIV:6 of the GATT) what compensation, if any, these trading partners are due as a result of Community enlargement. The Committee expects the Government to press the Canadian case for compensation vigorously, and hopes that the Community will be urged by the United Kingdom to respond to Canadian claims with an attitude as positive and flexible as Canada's has been regarding enlargement. The most recent Community policy decision regarding these claims does, in fact, appear to recognize the validity of the Canadian position.

(iv) Government Efforts to Improve Trade

The relatively disappointing Canadian record in Community markets has been due at least partly to a lack of governmental participation in the identification and promotion of these potential markets. Fortunately in the past two years this situation has changed. Perhaps the adverse implications of Britain entry and the shock of the August 1971 United States measures have provoked greater efforts. In a conscious promotion of closer economic and commercial relations with Western Europe the Government has focussed attention on these markets in a variety of ways. A substantial concentration of its trade commissioner service is now working in Western Europe; missions on science and technology were sent to Belgium and Western Germany to foster exchanges of technology, information and expert personnel and science and technology agreements have been signed with those countries; trade and industrial missions including Canadian businessmen went to several Western European countries; the Government participated at major European trade fairs; a programme was set up to bring European buyers to Canada to see Canadian industrial capabilities and products at first hand; a programme was instituted which enables the sharing of risks of costly bidding on contracts abroad with Canadian exporters as well as exhibiting at specialized trade fairs abroad.

The Committee notes with approval that several provincial governments have also become increasingly involved in supporting and promoting business contacts in Western Europe. Contact at a ministerial level between the provinces and the federal government should ensure that through exchange of information,

these governmental support programmes remain a positive complementary effort and avoid needless duplication.

The Committee considers that these government trade promotion programmes are vitally important in the international trading world. Individual businesses can rarely push into these highly competitive markets alone: it would appear essential that government programmes supporting the efforts of trade associations and of individual business co-operate to the fullest in penetrating Community markets. In addition, if there is to be an increase in Canada-Community joint production and joint development ventures as referred to on page 19 there will be an onus on the Government to help identify, by means of economic intelligence work abroad, the potential areas of interest to Canadian investors.

IV AN INTERPARLIAMENTARY LINK

One of the highlights of the Committee's trip to Brussels was its meeting with the group of members of the European Parliament under the chairmanship of the British Conservative M.P. Mr. Peter Kirk. The meeting produced a stimulating and useful exchange of ideas and opinions.

It is not easy for outsiders to gauge the degree of influence which the European Parliament presently holds with the Community. It has no law-making powers nor any direct veto over the Council of Ministers. It has the right, as yet unused, to dismiss the full Commission by a vote of censure with a two-thirds majority, but it does not have the power to appoint a new Commission.

There are increasing signs, however, that Parliamentary influence over legislation is expanding. By greater use of oral and written questions put to both the Commissioners and the Council, Parliament is seeking to keep a close watch on Community developments. The Commissioners faced with a more outspoken Parliament may have to defend their legislative proposals in person more energetically. Moreover by 1975 Parliament will acquire limited budgetary powers with control over the administration and information items in the budget amounting to some 4 or 5 per cent of the total.

Since enlargement a new spirit of reform seems to have seized the European Parliament. It was given expression by Mr. Peter Kirk in his maiden speech in January 1973:

Without an effective Parliament, our Community is in danger of strangling in bureaucracy or drowning in apathy . . . The more we have examined the situation, the more astonished we are at the latent power which this Parliament could have, if only it would use it. We hope to play our part in this through things like questions, budgetary control and other measures . . .

The power we have may be a negative one . . . But it is a real power just the same and there for the asking . . . Initiatives are there to be seized. We can and must seize them . . .

Our policy is simple—power to the Parliament, . . . Power over the Commission, first because that is implied in the treaty but we must examine our relations with the Council as well.

The first major development of the present session was the decision to make a 60-minute Question Period a regular part of the European Parliament.

Whether the European Parliament becomes a directly elected body—a sort of supranational Parliament—or evolves along other more pragmatic lines, there is little doubt that its influence and responsibility in Community affairs will increase. With this in mind, the Committee believes it would be desirable for the Parliament of Canada to seek to establish some form of regular parliamentary link with the European Parliament.

At present the only such established parliamentary link the Canadian Parliament has with most Western European parliamentarians is through the North Atlantic Assembly. Although some discussions are going on concerning an extension of its competence, this body remains primarily concerned with NATO affairs. Reflecting the importance of Canada's relationship with the United States, a parliamentary link with the U.S. Congress has been in existence since 1959. Canadian parliamentarians maintain contact with their French counterparts through the Canada-France Parliamentary Association and with British parliamentarians in a larger forum, through the Commonwealth Parliamentary Association.

There has been since 1969, contact with the Consultative Assembly of the Council of Europe with visits being exchanged more or less on an annual basis. The Committee has concluded that the relative importance of the Council of Europe and the European Parliament should be faced squarely. Several witnesses before the Committee did not doubt that the Community would move in the direction of a more powerful Parliament, and that as it gained in power and effectiveness there would be a decline in the influence of the Consultative Assembly of the Council of Europe.

A clear impression was gained by the Committee in Brussels that some European Parliamentarians were actively looking for a basis for organization of formal links with their counterparts in the capitals of their major trading partners, including Canada. In the Committee's opinion, it is desirable for the Canadian Parliament to take the initiative. Delay could result in the build-up by the Community of a network of parliamentary links with third countries' parliaments, leaving the members of the European Parliament with far less inclination or time to consider such links with Canada. A regular formal link would serve to promote, at the level of elected representatives, a continuing dialogue on interests and outlook between Canada and the Community.

Following the Committee's meeting with the group of European Parliamentarians in Brussels, the Chairman, together with the Chairman of the House of Commons Committee on External Affairs and National Defence, issued an invitation on behalf of the Speakers of both Houses of Parliament to the European Parliament to send a delegation to Ottawa in the autumn of 1973 to meet with representatives of both Houses. The Committee sees this as a first step in the development of a regular link between the two Parliaments.

V. CLOSING THE INFORMATION GAP.

(A) A Community Information Office in Ottawa

One aspect of Canada-Community relations which the Committee examined was the desirability of and need for a Community mission in Canada. The Ambassadors of the member nations stationed in Ottawa are neither authorized nor qualified to speak on matters involving Community affairs. Mr. Schaetzel considered that it was "in the self-interest of the Community" to have active diplomatic relations with countries such as the United States, Japan and Canada and that "it is a burden which should not be placed on the nine ambassadors who are accredited to the Canadian Government". (1:9; 1973). However, the Committee recognizes that at present some member states in the Community are strongly opposed to the transfer of political authority in external affairs to a Community representative abroad. This is a difficulty which would make the establishment of a diplomatic mission in Canada a controversial issue at the moment.

This problem, however, would not prevent the setting up of an Information Office in Ottawa. Already the Community has offices in other centres such as Washington, Geneva and Tokyo, with the educational information function of explaining the Community and its objectives. The Committee considers that such an information role is badly needed in Canada. There has been some contact at the University level, notably the Centre d'Études et de Documentation Européennes in Montreal and the University of Waterloo which receive Commission documents. A limited information function has been performed by the Centre d'Études. However, no Community publications tailored to Canadian needs exist; the Washington office's publications are naturally focussed on US-Community problems. The Community has, it is true, sent speakers to Canada, but this has been an infrequent and under-publicized development. The Canadian public is generally unaware of the importance of the Community to Canada.

While in Brussels, the Committee informed the Commission that it considered the absence of a European Community Information Office in Canada a lack on the Community's part. It is in the Community's interest to explain its trade, economic and monetary policies in Canada if there is to be an effective dialogue. The response to this suggestion in general appeared to be favourable at the Commission level. One senior Commission official suggested the possibility of such an office in Canada by 1974 although he reminded the Canadians that much necessary Community information work within the member states still needed to be done. On the whole, Community officials were conscious of the importance of promoting their image in the world if international cooperation were to be achieved. It is clear that

such an Information Office could also be of benefit to the Ambassadors of the EC member countries resident in Canada.

The Committee urges the Government to press the Community to establish such an Information Office in Ottawa at the earliest possible date as part of a necessary increase in communications between Canada and the Community.

The Committee would have preferred to have held further and more detailed meetings on this matter with the Community officials before making a recommendation. In fact, an invitation was issued to the Commission by the Committee Chairman in early April to send officials to Canada to discuss Community information activities. Unfortunately the Commission was unable to act on this invitation within the timetable required to complete the Committee's report. However the Committee hopes that such Community information representatives will be able to come to Canada in the autumn and the Committee would be glad to see them then. At that time the Commission officials should also talk to the Canadian Government concerning this recommendation.

(B) Exchange Visits

(i) to the Community

For a number of years, the Community has organized and sponsored a programme under which young people from all countries come to the Commission to work for 5 months as internes (stagiaires) as a means of becoming better informed about the Community from the inside. The Community program calls for 400 internes annually, of which 30 to 40 places are designated twice a year to candidates from 100 non-member countries, the remainder being for persons residing inside the Community. Each non-member country is eligible to have one paid interne per year and two or three non-paid candidates. Canada has placed only one interne over the entire period of operation of this programme; the United States, by contrast, has had 16 Americans participate in the past ten years.

The Committee believes that this major gap in Canadian participation can and should be speedily remedied. The Government should see to it that advantage is quickly taken of this opportunity for placing Canadians regularly.

(ii) to Canada

Consideration should be given to the initiation by the Canadian Government of a European visitors programme. The United States leader grant programme is a model which might be of interest. Under this programme, leaders or potential leaders of foreign countries are invited by the Department of State to visit the United States for approximately a month's time, subsidized by the Government. The objective of this programme is that informed and influential persons including political figures will be able to convey back to the Community or their countrymen a more accurate assessment or understanding of the United States based on the observations and experiences of their visit. The key to the whole leader grant pro-

gramme lies in the selection of potentially influential persons. Under the U.S. scheme more than 80 grants have been awarded in the last 12 years to European Community officials, nearly half of whom now hold senior positions within the Community. (To illustrate the significance of the programme, it should be noted that 124 members of the British Parliament and 12 of 16 members of the present West German Cabinet, including the Chancellor Mr. Brandt himself, were brought in past years to the United States as potential leaders under these grants.) In 1973, the United States mission to the European Community will send fourteen visitors to the United States from the Community and the international press corps accredited to the EC. The cost for a 30-day visit is estimated at about \$2,100 per person.

The Committee suggests to the Government that it look carefully into the possibility of a similar type of programme between Canada and the EC Commission in particular, in order to broaden the areas of understanding, as part of a larger arrangement for inviting potential leaders from countries of importance to Canada.

The Committee is aware that the Department of External Affairs already has a programme which brings journalists and "opinion-formers" to Canada from foreign countries. Western Europeans have benefitted from this plan but no Commission officials have ever been involved, nor does it extend to active politicians. The suggested 'visits programme' would be in addition to this existing programme and to departmental and agency schemes for exposing foreign officials to Canada on a functional basis, as the Canadian Wheat Board's program has been doing with evident success for almost two decades.

The Committee learned that the United States gives a small grant annually to the College of Europe in Bruges which covers the cost of an American professor on the staff. This small European college, founded in 1949, offers post-graduate courses with special emphasis on European integration in law, economics, politics and social science. The Committee believes that the possibility of a Canada Council grant for a similar purpose should be explored. Alternatively, the Academic Relations section of the Department of External Affairs might consider supporting such an endeavour.

Similarly, the Committee noted that the U.S. Mission in Brussels helps select Europeans for an American private foundation which grants yearly exchange fellowships in order to provide periods of travel and observation for citizens who have already demonstrated leadership potential in their respective countries or professions. Under this Eisenhower Exchange Fellowship scheme, three Europeans (in addition to persons from other continents) have spent 6 to 8 months of consultations, travel and on-the-spot assignments in the United States during the past three years. The Committee wishes to draw attention to this as a worthwhile project.

The administration of a 'visits programme' to Canada from the Community would undoubtedly be handled by the Canadian Mission to the European Com-

munity and might involve the appointment of an information officer to undertake a much fuller programme than is now possible, to service the news media and act as the Mission's liaison with the E.C.'s Press and Information Services.

C. Other Canadian Programmes related to the Community

The Committee was surprised that so little attention appears to be given to the European Community in Canadian university and academic circles. Dr. Pentland stated that the Centre d'Études et de Documentation Européennes in Montreal "is the only one that I know of which has the EEC as its primary focus" (4:10; 1972). Since it operates in French, the majority of English-speaking Canadians are not in a position to derive benefit from it. Although the Committee was informed of individual academics concentrating on European studies, Dr. Pentland's assessment appears to be accurate. In universities across the country there are centres for area studies for Asia, Africa, or Latin America. Europe has been ignored presumably because its cultures and traditions are both more accessible and better known in Canada. However, the European Community is a complex institution, difficult to understand, developing rapidly, and with increasing ramifications for Canadian and world interests. If curricula are determined by any criterion of relevance, the EC and the European environment in which it is developing merit considerably greater attention than they have been receiving in Canadian universities.

Increased Canadian participation in the above-mentioned Community interne programme should be directly linked to institutions deciding to offer a special programme of contemporary European studies, and would be of immediate benefit to them in developing specialized competence among their staff.

The Committee commends the idea of a Conference on Canada-EC Affairs scheduled for mid-October 1973 in Ottawa under the joint sponsorship of the EC and the Canadian Institute of International Affairs (C.I.I.A.). This meeting will bring to Canada prominent Community officials and representatives. The benefit will undoubtedly work both ways—serving to alert Canadians to the achievements and the difficulties of the Community and to communicate to the Europeans the special problems facing Canada internationally. The Committee also commends the C.I.I.A.'s plan to arrange a study visit of the Community for a group of Canadian business leaders in March of 1974.

The Committee considers that Canadian media coverage of the Community has been generally inadequate and unsatisfactory. Only with British entry has a modest attempt been made to assess the economic significance of the Community for Canada. Radio and television have remained generally aloof although the Committee was recently informed that the CBC is preparing a modest programme on the Community for this autumn. There is much scope for editors, writers and broadcasters in Canada to try to close the information gap concerning the Community and its activities for the vast majority of Canadians.

The Government's 1970 foreign policy paper on Europe emphasized the importance of intensification of information and of cultural activities with Western Europe. The Committee endorses this policy emphasis, notes the appreciable increase in quantity and quality of Canadian cultural programmes in Western Europe in the past two years (art exhibits, orchestras, choirs, ballet groups, etc.) and considers this should be a continuing development with a more intensive information activity being directed at the Community itself.

SUMMARY
of
CONCLUSIONS AND RECOMMENDATIONS
of the
REPORT
of the
STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
Respecting
CANADIAN RELATIONS
with the
EUROPEAN COMMUNITY

I. INTRODUCTION: The Importance of the Community to Canada

The Committee's examination has strengthened its conviction that the European Community (EC) is of increasing importance to Canadian interests. With the inclusion on January 1, 1973, of the United Kingdom, Denmark and Ireland, the Community constitutes by far Canada's second largest trading partner. In 1972 the Nine member countries accounted for 12.4 per cent of total Canadian exports, or more than 45 per cent of all Canadian exports not going to the United States.

British entry imposes a greater 'burden of adjustment' on Canada than on any other country outside the enlarged EC.

II. WHAT IS THE COMMUNITY? WHERE IS IT GOING?

Although for many in the Community the ultimate goal is political unity, the primary concern until the present has been in the economic field. In economic terms the achievements of the EC have been remarkable. The successful establishment of the customs union has resulted in impressive growth rates for the original six-member countries. Between 1958 and 1970 the gross product of the Community increased by 90 per cent (as compared to 61 per cent for the United States). The Community had in 1971 an annual production figure of about \$700

billion as compared with over \$1,000 billion for the United States. But since the Community is relatively a larger importer than the United States (importing close to 10 per cent of its gross product whereas the figure for the United States is only 4 per cent), the enlarged Community has emerged as the world's largest trading entity. In fact it constitutes an import market 50 per cent larger than the United States.

The growth and success of the Community has raised the threat of trade bloc confrontation between the world's major traders, the United States, Japan and the Community. Developed industrialized countries outside the EC see dangers to world trade liberalization in the vast increase of intra-EC trade, in the Common External Tariff and particularly in the highly protectionist Common Agricultural Policy and from the EC's expanding network of preferential trading arrangements (often discriminatory to non-member countries). These latter range from free trade agreements with non-member industrialized states of Europe to preferential trade agreements with former colonies in Africa, the Caribbean and elsewhere.

The economic power of the Community imposes on it a heavy burden of political responsibility which it does not appear to be in a position to assume and which it may not yet be able to discharge.

The Community is not a conventional grouping of states, nor a single new state, but a mixture of the two. The idea of a federated supranational Europe has declined. The sharing of decision-making powers between the member states and the Community institutions is a complex coordinated exercise in sovereignty. Although there appears to be a gradual movement towards integration, the big question may be whether there is enough political will, statesmanship and momentum to propel it against nationalist opposition.

The current internal debate over the future character of the Community poses the choice between an advanced mercantilist society concerned primarily with technology, export sales and growth rates or a more open 'human face' Community concerned as well with broad human and social dimensions; an inward-looking protectionist grouping of states concerned mainly with economics or a liberal outward-looking society, thinking and acting responsibly in world terms.

It is the Committee's view that the Community can develop 'a human face' and define a new European social consciousness. It is to be hoped, however, that its concern for the betterment of European citizens will not lead to protective barriers against outside countries' goods and that the Community will, as the Summit meeting urged, acknowledge its international responsibilities.

III. CANADA-COMMUNITY RELATIONS

A. Intergovernmental Relations

Since the Community is above all a trading entity, Canada-Community relations have naturally been concerned principally with questions of trade. But

Canada has no trade agreement with the Community, no regular structure other than the Embassy for consultations, nor is there a clear channel for "a constructive dialogue" between Canada and the Community as called for in the Summit Communiqué.

(i) Pursuing the Dialogue

Given the complexities of the Community's decision-making process, the question is whether input in the separate national capitals which may influence the decisions at the Council of Ministers level is more important than input at Commission headquarters in Brussels. There is, in addition, the important role of the Committee of Permanent Representatives to consider.

The Committee agreed that a combination of techniques, a system known commercially as 'double banking', is necessary. It is a matter of systematic consultations both in the national capitals and with the Commission in Brussels.

The Committee considers the appointment last December of a Canadian Ambassador accredited solely to the Community a positive step toward improvement of the Canada-Community dialogue.

(ii) Appropriate Consultative Arrangements

The Committee has examined the alternative possibilities for regular, institutionalized consultative arrangements between Canada and the Community. There were three possibilities:

- a) a committee at the ministerial level patterned after the Joint United States-Canada Ministerial Committee on Trade and Economic Affairs or the Canada-Japan Ministerial Committee;
- b) a joint committee ('commission mixte') comprising an appropriate mix of ministers and officials depending on the issues under discussion and set up under the terms of an economic co-operation agreement between Canada and the Community;
- c) more informal but scheduled consultations along the lines of those already established between the United States and the Community. These latter meetings were set up by a 'gentleman's agreement' and are conducted on a semi-annual basis by the U.S. Under-Secretary of State for Economic Affairs and the EC Commissioner for External Trade.

The Committee has concluded that although a joint committee of ministers and officials between the Community and Canada will eventually be the most satisfactory consultative arrangement, its establishment is dependent on the conclusion of a bilateral agreement. Pending the achievement of such an agreement, it is the Committee's judgment that the present informal technique of arranging, as appropriate, meetings by ministers and officials in Brussels and Ottawa comes closest to fulfilling Canadian requirements at this time.

However, the Committee's endorsement of these present informal consultative practices is predicated on two considerations:

- a) continued effort and pressure to achieve a broad economic co-operation agreement with appropriate consultative arrangements; and
- b) in the interim, continuous initiatives by the Canadian Government and an imaginative search for ways of developing new links with the Community.

(iii) *A Canada-Community Agreement*

The Committee has concluded that Canada should not try to seek a preferential relationship nor any special association with the Community which would be discriminatory to other Canadian trading partners. The Committee considers the Government's concept of seeking a comprehensive non-discriminatory economic co-operation agreement with the Community to be a valid one.

Some of the subjects to be discussed in the course of negotiations relate to long-term prospects for trade in energy and resource materials including the processing of nuclear fuels. Other subjects of discourse are copyright, consumer protection, protection of the environment, standards and quality control, the industrial application of science and technology as well as government procurement policies, countervailing duties, coastal shipping regulations, export subsidies and concessional financing. Such an "umbrella" agreement, if concluded, would provide a broad scope for co-operation on issues of mutual interest beyond the possibilities of a regular trade agreement.

(iv) *Provincial Government Contacts*

The increased interest being shown recently by provincial governments in developing new and closer contacts with the Community countries of Western Europe will give further impetus to closer Canada-Community relations. It will be important to develop ways of co-ordinating the increasing federal and provincial activities, if they are to be fully effective.

(v) *Head of Government Level Contact*

It is important to emphasize to the members of the Community that Canada and the United States are two North American countries with many significant differences including the basic political systems. **In this regard the Committee is convinced that an official visit by the Prime Minister to the European Community and, if possible, to member states is of vital importance in the continuing development of Canadian-Community relations.** Such a visit would also serve to draw the attention of Canadians to the Community.

B. Business and Investment Contacts

On the whole, Canadian business circles have been slow to appreciate the opportunities and potentialities of the European Community. Only now when

British entry has endangered the traditional U.K. trade have Canadians begun to develop a real awareness of these European markets.

The Committee is convinced that Western European markets offer Canada the most important prospect for diversification of its exports, particularly of semi-processed and manufactured goods.

The efforts of Canadian exporters could be facilitated by the development of export partnerships or consortia among various small Canadian firms to help handle marketing, transportation, warehousing or distribution problems.

In addition to the traditional export sales techniques, the Committee notes that there are other ways of penetrating European markets, including the establishment of subsidiary firms within the Community borders, the participation in an established European firm, the conclusion of joint venture arrangements or the securing of licensing arrangements under which the Canadian product would be licensed in Europe in return for a license fee or royalty.

It is also of interest to note the new techniques of engaging economic and industrial interests in Canada and the EC in long-term joint production and joint development ventures involving capital sharing and technology trade-offs.

The Committee considers that such enterprises will undoubtedly play a major role in the future expansion of Canadian trade with the Community. Companies within the Community with Canadian links are far more likely to import familiar Canadian products than those from another source.

Since 1968 Canadian borrowers have begun to look more frequently to Europe for funds and as a major market for Canadian security issues. European investment in Canada, both direct and portfolio, has increased strongly in recent years. Both trends are positive factors in future Canada-Community cooperation. One of the major advantages to a closer Canada-Community investment relationship lies in the existing Canadian investment links with the United Kingdom.

Looked at positively, Canadian exporters and businessmen would appear to have certain advantages over many other competitors outside the Community at the present time. If Canada is to change or modify its traditional role in Europe as a supplier of resource-based exports and become an acknowledged source of semi-processed and manufactured goods, it will have to come about through the efforts of Canadian exporters as well as by imaginative investment initiatives such as joint ventures on the part of Canadian investors.

C. Trade Relations

In general terms Canada's exports to the expanding Community markets have not kept pace with competitor nations' exports. Canada's share of this rapidly growing market has declined.

(i) Agricultural Products

One of the most difficult features of the EC for Canada has been the protective Common Agricultural Policy, not only from the point of view of imports

but also in relation to competition in third markets. The gradual application of the CAP in the United Kingdom against Canadian agricultural products going to Britain will affect 90 per cent of this \$300 million trade.

(ii) *Primary Materials and Manufactured Goods*

Although Canadian exports of primary products to the Six made striking advances between 1958 and 1970, semi-fabricated and manufactured exports increased at a slower rate than the average of other developed countries. As a proportion of total Canadian exports to the U.K. and the Six the percentage of manufactured goods has been small. (In 1972 14.9 per cent to the Six and 8.2 per cent to the U.K.)

A more vigorous and concentrated effort is needed to penetrate the sophisticated Community consumer markets with Canadian manufactured and semi-finished exports. Particular efforts will need to be made to balance the expected decline in Canadian manufactured exports to Britain due to loss of the preferential tariff.

(iii) *Adjustments Resulting from U.K. Accession*

Canada has not yet abandoned its side of the preferential tariff arrangement with the United Kingdom which Britain was obliged to drop on entry into the Community. The Canadian decision has an obvious and positive effect for the Canadian consumer on the price of British-made goods. However, if the Community objected strongly to this decision which gives an export advantage to one member of the Nine, the Government might consider dropping this preference in return for more flexible access conditions for specific Canadian products facing serious difficulties.

The Committee expects the Government to press vigorously the Canadian case for compensation under Article XXIV: 6 of the GATT and hopes that the United Kingdom will urge the Community to respond with an attitude as positive and constructive as Canada's has been regarding enlargement.

(iv) *Government Exports to Improve Trade*

The Committee considers that the various government promotional programmes have helped focus the attention of Canadian exporters on Community markets. In cooperation with trade associations and individual businesses, Government participation appears to be an essential support in bringing the Canadian sellers and the European buyers closer together. If there is to be a significant development of joint production and joint development ventures with business interests within the community, there will be an increasing onus on Government to help identify, through economic intelligence work abroad, the potential areas of interest.

IV AN INTERPARLIAMENTARY LINK

There is little doubt that the influence and responsibility of the European Parliament in Community affairs will grow. The Committee believes it would be

desirable for the Parliament of Canada to seek without delay to establish some form of regular parliamentary link with the European Parliament.

V CLOSING THE INFORMATION GAP

The Committee considers that the Government should press the Community to establish an EC Information Office in Ottawa at the earliest possible date, as a way of bridging the serious information gap about the Community in Canada and as a funnel back to Brussels regarding Canadian interests and viewpoints.

The Committee would like to see an increase in the number of exchanges between Canada and the Community. In particular it has noted that Canada has placed only one interne (stagiaire) during the entire operation of the Community-sponsored programme for bringing students to its headquarters.

The Committee urges the Government to see that advantage is quickly taken of this opportunity for Canadians to participate in the Commission interne program.

Consideration should be given by the Canadian Government to the initiation of a 'visits programme' by which Community officials or potentially influential politicians in the Governments of the EC member states, would be offered study visits in Canada. On the basis of their observations and experiences, they would be able to convey back to the Community or to their countrymen a more accurate assessment or understanding of Canada.

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

APPENDIX "A"

The Institutions of the European Community.

The major Community institutions are:

The Commission,

The Council of Ministers with its important adjunct the Committee of Permanent Representatives,

The European Parliament and

The Court of Justice.

A. THE COMMISSION

Since enlargement the Commission consists of thirteen members, two each from Germany, France, Italy and the United Kingdom and one each from Belgium, the Netherlands, Luxembourg, Denmark and Ireland. The centre of the Commission's activity is the Berlaymont building in Brussels.

Each member of the Commission is responsible for one or more of the main Community activities: legal affairs, economic & financial policy, external relations, industrial affairs, research and technology, agriculture, development aid, antitrust policy, atomic energy, social affairs and regional policy. The Commission takes decisions by a simple majority vote and is responsible as a group for its actions.

Under the Commissioners an administrative bureaucracy now numbering about 7,000 is divided into departments known as Directorates-General, each responsible to a Commission member. Preparatory work on any proposal is done in the relevant Directorate-General and then presented to the Commission.

Commissioners are appointed by the member governments for four-year renewable terms. The president and five vice-presidents hold office for two-year renewable terms. The present Commission began their terms in January 1973:

<i>Commissioner</i>	<i>Responsibilities</i>
ORTOLI, François-Xavier (France) (President)	Commission secretariat, juridicial service, spokesman's group, internal security;
HAFERKAMP, Wilhelm (West Germany) (Vice-President)	Economic and financial affairs, EC statistical office;
SCARASCIA-MUGNOZZA, Carlo (Italy) (Vice-President)	Liaison with European Parliament, transport, environmental and consumer policy, press and information;
SOAMES, Sir Christopher (U.K.) (Vice-President)	External relations (trade);
HILLERY, John (Ireland) (Vice-President)	Social affairs policy;
SIMONET, Henri (Belgium) (Vice-President)	Fiscal policy, energy policy and nuclear safeguards;

DAHRENDORF, Ralf (Germany)	Research, science and education;
CHEYSSON, Claude (France)	Budget and financial supervision, Development aid and cooperation;
THOMSON, George (U.K.)	Regional policy;
LARDINOIS, Petrus Josephus (Holland)	Agricultural policy;
GUNDELACH, Finn Olav (Denmark)	Internal market affairs, customs union;
SPINELLI, Altiero (Italy)	Industrial and technological policy;
BORSCHETTE, Albert (Lux)	Competition policy, personnel, administration.

The Commission has three main functions:

(a) It has the exclusive right to initiate and propose Community policy and is ultimately responsible for the implementation of policy decisions once they have been decided on by the Council of Ministers; (b) It acts as a go-between and mediator for member governments. When preparing policy proposals, it consults the experts from national administrations as well as interest groups; it is represented during Council meetings and, if Ministers disagree, will present new proposals to help reach a compromise decision; (c) It acts as the watchdog of the Community treaties in its task of overseeing the application or implementation by member governments of Community decisions.

B. THE COUNCIL OF MINISTERS

The Council is composed of Ministers from the nine member governments. Depending on the subject under discussion, governments normally send one minister, but sometimes two, to meet in Council, e.g. at a transport session, the Ministers of transportation would be present; at an agricultural session the Ministers of agriculture and possibly finance would be there. For major decisions of overall policy the foreign ministers usually meet. Council meetings are held several times a month, normally in Brussels.

The Council of Ministers is the decision-making body of the Community, discussing and disposing of the proposals sent to it by the Commission. Although majority voting is the normal procedural method of the Council as described in the Treaty, since an internal crisis in 1966, it is rarely used. On important issues, the Council members prefer to find a solution agreeable to all ministers. When majority voting is held, a weighted-voting system is used, but small countries are protected by the Commission which can require a unanimous vote.

The Ministers can naturally afford the time to meet together only for brief periods. Their meetings need to be prepared and the Committee of Permanent Representatives has been formed informally to carry out this task. Increasingly it has also become a decision-making body in its own right.

C. THE COMMITTEE OF PERMANENT REPRESENTATIVES

The Committee of Permanent Representatives is made up of heads of the permanent delegations of the Nine member countries to the Community. The chairmanship of this Committee rotates among the members on a six-month basis, just as it does in the Council of Ministers. Each Ambassador is assisted by a delegation of considerable size with representatives from his country's ministries of finance, agriculture, social affairs, etc.

The preparation and co-ordination of the work of the Council is in the hands of this Committee which meets frequently with Commission officials to discuss future Council agendas. However, the activity and responsibilities of this Committee have developed to the point where it has become the major decision-making body for day-to-day issues. Where there is unanimous agreement on issues among the permanent representatives or their deputies—who naturally act on instructions from their governments—on points of minor importance, these will be laid before the next Council of Ministers as so-called "A" points. These points, in practice, are almost inevitably accepted by busy cabinet ministers in Council

without discussion. Even with more controversial issues a very considerable degree of power rests with the Committee of Permanent Representatives to work out a position acceptable to everyone.

Technical matters are prepared for the Permanent Representatives by committees of national civil servants, with one Committee for each of the main branches of Community activity. The Commission is represented at all levels in this preparatory work.

D. THE EUROPEAN PARLIAMENT

The European Parliament exercises a very limited democratic control on the other Community institutions. Since enlargement, there are nominally 198 members* in the Parliament from the nine member countries. Normally they meet in Strasbourg seven times a year and in Luxembourg four times. Members are not directly elected to the European Parliament but are designated by and from their respective Parliaments. They sit not by nationality but by party or ideological affiliation. The present Parliament has five major groupings in addition to a number of unaffiliated members: Christian Democrats, Socialists, Liberals and allies, Conservatives and European Democratic Unionists. There are now six working languages employed both in plenary sessions and Committee meetings.

There are twelve Standing Committees of Parliament which meet mainly in Brussels. Appropriate members of the Commission appear before Committees to give accounts of decisions taken by the Commission and the proposals referred to Council.

Parliament has no law-making powers, nor any direct veto over the Council of Ministers although the Council appears 3 times a year before it. It has the power, as yet unused, to dismiss the full Commission by a vote of censure with a two-thirds majority oral and written questions put both to the Commission and to Council, Parliament is able to keep a close watch on Community developments. Commission representatives appear at plenary sessions to explain their policies and answer critics.

In budget matters the final word rests with the Council but by 1975 Parliament will, under certain conditions, have the power to override the Council by a vote of three-fifths of its members, and to propose increases to that small part of the budget covering administration.

E. THE COURT OF JUSTICE

The nine member governments of the Community appoint a high court of nine independent judges to be the legal guardian of the founding Treaties and to ensure the observance of law and justice in the application and interpretation of Community rules. The Court is located in Luxembourg.

The Court deals with disputes between member countries on Community matters and between member countries and Community institutions, and hears appeals brought by a member country, the Commission, the Council or any individual regarding matters pertaining to the Community Treaties. Cases are heard on tariff questions, competition policy, social policy, agricultural policy, etc. Increasingly, the Court is dealing with referrals from national courts asking for preliminary rulings as to the interpretation or applicability of the Community's rules. This would appear to point to closer interaction between the European Court and national courts enabling Community law to be uniformly enforced in all member countries and a consistent body of European case law to be built up.

* * *

THE THREE EUROPEAN COMMUNITIES

In the strict legal sense it is correct to refer to the European Communities, since there are three Communities—the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and the European Atomic Energy Community (Eura-

* although at present the British Labour Party has declined to nominate its 15 representatives.

tom). Since 1967 all three have had common institutions. The more familiar and increasingly used title, European Community (EC) is used in this Report.

The European Coal and Steel Community, established in 1952, sought greater security and prosperity among the nations of Western Europe through a more effective pooling of their economic resources, in particular coal, steel, iron-ore and scrap resources in a single market.

The European Atomic Energy Community was set up in January 1958 when coal began to lose its dominance and it was generally considered that nuclear power would become the major future source of energy. It sought the development of a Community-wide atomic energy industry and of other peaceful uses for nuclear energy.

APPENDIX "B"

A SURVEY OF EC AGREEMENTS

1. *Free Trade Agreements:*

Austria, Iceland, Norway, Portugal, Sweden, Switzerland.

These agreements with those EFTA countries which have not become part of the enlarged Community provide for:

(1) the continued freedom from customs duties between the former EFTA countries which are new EC members (Denmark, and the United Kingdom) and the other EFTA countries; and

(2) the gradual establishment of industrial free trade with the 6 original members of the EC over a transitional period to 1977. A longer transition was negotiated for certain "sensitive" products including paper products, zinc, lead and aluminum. Most farm products are excluded.

A similar agreement with Finland is pending.

2. *Association Agreements:*

A. Greece, Malta, Turkey, Cyprus, Morocco, Algeria (pending), Tunisia.

Although these agreements vary somewhat, they aim at the removal of virtually all trade barriers with the Nine, the establishment of a customs union and, in the case of Greece and Turkey, for eventual full membership in the Community.

B. Burundi, Cameroun, Central Africa, Chad, Republic of the Congo, Dahomey, Gabon, Ivory Coast, Malagasy, Mali, Mauritania, Mauritius, Senegal, Somali, Togo, Upper Volta, Zaïre.

Under the Yaoundé Convention, separate free trade areas have been set up between the EC and each of the associated states. But the associates retain their right to impose revenue duties on imports from the Community as long as they do not discriminate between or against the Nine. In practice, with some exceptions, they tend to give preference to industrial goods from the EC. From the EC, they get free access for most commodity exports as well as financial aid through the European Development Fund and the European Investment Bank.

C. Kenya, Uganda and Tanzania.

The Arusha agreement involves a somewhat looser arrangement than with the Yaoundé group, without the aid provisions but with specific reciprocal preferential undertakings.

3. *Preferential Trade Agreements:*

Spain, United Arab Republic, Israel, Lebanon.

In general, these trade agreements, while falling short of a full customs union or a free trade area, provide reduced or free access into the EC for a major portion of these countries' exports and in return, these Mediterranean markets grant tariff concessions to industrial exports of the Community.

4. *Non-preferential Trade Agreements:*

Yugoslavia, Argentina, Uruguay, Brazil (under negotiation), Pakistan, India, Iran, Thailand.

These agreements vary considerably but in general are designed to ensure a supply of specific products (such as beef and veal from Argentina) into the Community markets. These agreements conform to the most-favoured nation clause of the GATT.

5. In 1975 the following independent developing countries of the Commonwealth will be eligible for some form of association or preferential agreement with the Community:

Jamaica	Ghana	Lesotho
Barbados	Nigeria	Fiji
Trinidad/Tobago	Zambia	Samoa
Guyana	Malawi	Tonga
Gambia	Botswana	
Sierra Leone	Swaziland	

These countries will be given a choice of: (i) a Yaoundé type of association agreement (see 2-B above); (ii) an Arusha type of association agreement (see 2-C above); or, (iii) a trade agreement.

In general, many of these Commonwealth countries appear wary of too close an association with the Community. Further, their interests vary widely from region to region (e.g., the Caribbeans have not much in common with Central Africa). Almost all Commonwealth countries appear to be opposed to reverse preferences for EC exports.

Note: The Community was the first industrialized entity to grant generalized tariff preferences along lines proposed in UNCTAD to manufactured and semi-finished products of the over 90 developing countries. Since this is reducing the advantage which the Yaoundé countries formerly had in the Community markets, these countries may increasingly question the benefit to themselves of granting reverse preferences in their domestic markets to the Community nations. This may explain why the Commonwealth countries appear to be opposed to reverse preferences for the EC countries.

* * *

In regard to recent Community policy on reverse preferences, it is interesting to note a speech given April 5, 1973 by Sir Christopher Soames, the Commissioner responsible for the Community's external relations:

...we do not propose to ask for any reverse preferences from anyone. The Commission... believes we should not seek any preference for our goods on any markets as against American goods, or Japanese goods or those of any other trading country. The Community will not make the benefits of technical and financial co-operation, or of tariff preferences, dependent in any way on the existence of reciprocal trade preferences in its favour. Any Mediterranean country, any present Associate, any new country which joins the next Convention of Association will be free to use its own tariff sovereignty.*

* Sir Christopher Soames "The ECC's external relations", *The World To-day*, Royal Institute of International Affairs, May, 1973, p. 192.

APPENDIX "C"

STATISTICAL ANNEX

Table 1

MAJOR CANADIAN EXPORTS TO THE EC (The Six)

1972 Ranking	(in \$ million)	
	1971	1972
1 Wood pulp.....	143.9	156.8
2 Wheat (except seed).....	112.7	81.9
3 Aircraft; engines and parts; assemblies equipment and parts.....	21.2	72.7
4 Zinc in ores and concentrates.....	67.7	71.3
5 Barley.....	64.7	59.5
6 Copper, refinery shapes.....	62.9	52.1
7 Flaxseed.....	37.3	42.9
8 Asbestos, unmanufactured.....	41.8	41.8
9 Iron ores and concentrates.....	50.3	40.4
10 Rapeseed.....	71.6	37.7
11 Molybdenum in ores, concentrates and scrap.....	21.9	37.0
12 Paper and paperboard.....	18.8	24.5
13 Non-metallic minerals (except asbestos).....	23.7	22.2
14 Lumber, hardwoods and softwoods.....	23.7	20.7
15 Copper in ores, concentrates and scrap.....	9.9	19.6
16 Aluminum pigs, ingots, shot, slabs, billets, blooms and extruded wire bars.....	33.7	18.3
17 Salmon, frozen.....	10.8	15.2
18 Veneer and plywood.....	12.7	14.3
19 Pig iron.....	13.0	11.8
20 Nickel in oxide.....	10.5	10.6
Total of Commodities Listed.....	852.5	851.4
Total Exports.....	1,085.9	1,106.0
Commodities Listed as % of Total Exports.....	78.5%	77.0%

Source: STATISTICS CANADA

Table 2

MAJOR CANADIAN EXPORTS TO U.K.

Commodity	(in \$ million)	
	1972	1971
Nickel Ores and Concentrates.....	146	138
Primary Copper.....	119	111
Wheat.....	96	94
Aluminum pigs, Ingot, Shot and Slab.....	42	61
Chemical elements <i>n.e.s.</i>	31	24
Nickel Anodes, Cathodes, Ingots, Rods.....	23	71
Total of Commodities Listed.....	457	499
Total Exports.....	1,313	1,346

Source: STATISTICS CANADA

Table 3
MAJOR CANADIAN EXPORTS OF FINISHED GOODS TO THE EC
(The Six)

<i>1972 Ranking</i>	<i>(in \$ thousand)</i>	
	<i>1971</i>	<i>1972</i>
Aircraft; engines and parts assemblies equipment and parts.....	21,209	72,732
Biological and pharmaceutical products.....	4,991	7,203
Navigation instruments, apparatus and parts.....	5,691	7,105
Card punch sorting and tabulating computers and parts.....	7,595	6,974
Parts and accessories for motor vehicles.....	3,155	6,716
Technical models and teaching equipment for demonstration and instruction, accessories and parts.....	269	6,083
Chain saws and parts and accessories.....	4,395	5,524
Fur goods, apparel.....	4,666	5,357
Military weapons, ordnance and parts.....	596	2,800
Electric lamps, bulbs and tubes and parts.....	1,519	2,171
Measuring and testing equipment and parts.....	2,274	1,797
Textile industry machinery and parts.....	943	1,632
Crane and derricks.....	3,901	1,429
Printing and bookbinding machinery and equipment.....	898	1,144
Total Exports of Finished Goods.....	97,852	164,987
Finished Goods as % of Total Exports.....	9.0%	14.9%

Source: STATISTICS CANADA

Table 4
MAJOR CANADIAN EXPORTS OF FINISHED GOODS TO U.K.

<i>Commodity</i>	<i>(in \$ thousand)</i>	
	<i>1972</i>	<i>1971</i>
Electronic tubes and parts.....	13,068	19,091
Card Punch Sort Tab Computers and Parts.....	9,321	7,361
Aircraft Engines and Parts.....	7,362	6,138
Measuring and Testing Equipment and Parts.....	4,654	5,334
Photographic Equipment and Supplies.....	3,232	2,276
Total of Commodities Listed.....	37,637	40,200
Finished Goods as % of Total Exports.....	8.4%	9.2%

Source: STATISTICS CANADA

Table 5
BASIC STATISTICS OF THE NINE (1971)

G.C.P.	
Gross Community Product.....	\$692.8 billion
IMPORTS (% of World Total).....	39.2%
IMPORTS (excluding intra-EC Total).....	19.7%
EXPORTS (% of World Total).....	40.7%
EXPORTS (excluding intra-EC Total).....	18.1%
Population.....	253 million
Annual Growth rate, % G.C.P. (at constant prices—1960-1970 average).....	4.7%

Source: The Enlarged Community in Figures EC. Information Directorate 39/73F (E).

Table 6
COMPARATIVE IMPORTANCE OF EXTERNAL TRADE 1971
(including intra-Community trade)

Country	Imports			Exports			Balance \$ Million
	\$ Million	% of GNP	\$ per head	\$ Million	% of GNP	\$ per head	
Germany (F.R.).....	34,341	16.5	560	39,040	18.8	637	+4,699
France.....	21,057	12.9	411	20,344	12.5	397	— 713
Italy.....	15,830	15.7	294	14,974	14.9	278	— 856
Netherlands.....	14,684	40.7	1,113	13,534	37.6	1,026	—1,150
Belgium.....	12,334	42.0	1,232	11,969	40.7	1,195	— 365
Luxembourg.....							
United Kingdom.....	23,945	17.8	431	22,354	16.6	402	—1,111
Ireland.....	1,837	39.9	617	1,309	28.5	440	— 528
Denmark.....	4,584	26.8	924	3,615	21.1	728	— 969
Community.....	128,613	18.6	508	127,138	18.4	502	— 995

Source: The Enlarged Community in Figures. EC Information Directorate 39/73F(E).

APPENDIX "D"

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS (1972—1973)

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
<i>(Fourth Session—Twenty-Eighth Parliament)</i>		
2	March 21, 1972	Honourable Mitchell Sharp, Secretary of State for External Affairs and Mr. Michel Dupuy, Assistant Under-Secretary.
<i>In Camera</i>	April 26, 1972	Representatives of the Canadian Wheat Board — Mr. D. H. Treleaven, Ass't Chief Commissioner; and Mr. R. M. Esdale, Commissioner.
3	May 23, 1972	Honourable Jean-Luc Pepin Minister of Industry, Trade & Commerce; Mr. A. W. A. Lane, General Director, European Affairs Branch; Mr. G. Elliott, Chief, EEC Enlargement Task Force; Mr. F. J. McNaughton, Chief, Overseas Market Development Division, International Defence Programs Branch.
4	May 30, 1972	Dr. Charles Pentland, Professor of Political Science, Queen's University, Kingston, Ontario.
5	June 21, 1972	Mr. Forrest Rogers, Financial Adviser Bank of Nova Scotia, Toronto, Ontario.
<i>(1973) (First Session—Twenty-Ninth Parliament)</i>		
<i>In Camera</i>	February 15, 1973	Officials of the Department of External Affairs — Mr. Donald McPhail, Director-General of the Bureau of Economic and Scientific Affairs; Mr. Roger Bull, Director of the Commercial Policy Division; and Mr. Jeremy Kinsman, EC Desk Officer.
1	February 20, 1973	Mr. J. Robert Schaetzel, Washington, D.C. former United States Ambassador to the European Economic Communities.
2	March 14, 1973	Mr. A. F. W. Plumptre, Special Adviser on Governmental Rela- tions, International Development Research Centre.
<i>In Camera</i>	March 15, 1973	<i>Pre-Brussels briefing by an Interdepartmental group of Officials:—</i> Mr. Michel Dupuy, Assistant Under-Secretary of State for Ex- ternal Affairs; Mr. Rodney de C. Grey, Assistant Deputy Minister, Department of Finance; Mr. Michael Butler, Assistant Deputy Minister, Department of Energy, Mines & Resources; Mr. A. W. A. Lane, General Director for European Affairs, Department of Industry, Trade & Commerce; Mr. W. R. Hines, International Finance Division, Department of Finance.
<i>In Camera</i>	April 12, 1973	Mr. Arthur Menzies, the Canadian Ambassador to the NATO Council, Brussels, Belgium.

BRUSSELS VISIT—March 19–23, 1973 *Briefings, Hearings and Discussions:*

- March 19, 1973*
6.30 p.m. Briefing by J. C. Langley, Canadian Ambassador to the European Communities and his staff.
- March 20, 1973*
10.00–11.00 Sir Christopher Soames, Commissioner for External Relations;
Professor Uwe Kitzinger, Cabinet of Commissioner Soames;
Mr. F. Klein, Chief Commercial Policy/Bilateral Trade with Canada.
- 11.00–12.00 Mr. Franz Froschmaier, Executive Assistant to Commissioner Haferkamp and Information Director-designate;
- 13.00–14.30 Commissioner Scarascia-Mugnozza, responsible for liaison with the European Parliament, and press and information;
- 15.00–16.00 Mr. E. Wellenstein, Director-General of DG I, External Relations;
Mr. F. Klein, Chief, Commercial Policy and Bilateral Trade Relations with Canada in DG I, External Relations;
- 17.00–18.30 The Committee of Permanent Representatives (the Ambassadors of the nine member states in the Community): Chairman, Mr. Josef van der Meulen.
- March 21, 1973*
9.30–10.00 Mr. Max Kohnstamm, President of the European Institute for University Studies;
- 11.00–12.00 Mr. Kenneth Christofas and Mr. Jean Doumont of the Council of Ministers' General Secretariat;
- 13.30–15.00 Mr. Schaeffer, Director of Industrial and Technical Policy DC III, Industrial & Technological Affairs;
Mr. Caspari, Cabinet of Commissioner Gundelach;
Professor U. Kitzinger, Cabinet of Commissioner Soames;
Mr. Hammer, Cabinet of Commissioner Dahrendorf.
- 15.30–16.30 Viscount E. Davignon, Director-General of the Political Bureau of the Foreign Ministry of Belgium;
- 17.00–18.00 Senior Belgian bankers and businessmen including Baron L. Lambert, Mr. Louis Camu, Comte René Boël, Mr. Robert Henrion, Mr. P. M. Oury and Mr. Ronald Grierson, Director-General of Industrial and Technological Affairs.
- March 22, 1973*
9.30–10.30 Mr. Jean Rey, former President of the Commission, Chairman of the Special OECD Committee established to study world trading relationships;
- 11.00–12.30 Delegation of the European Parliament led by Mr. Peter Kirk, M.P., Chairman of the Conservative Group in the Parliament;
- 14.00–16.00 Commissioner Finn Gundelach, responsible for the Internal Market and the Customs Union;
Mr. H. B. Krohn, Director-General of DG VIII—Development Aid;
Mr. Fernand Spaak, Director General of DGXVII—Energy, Safeguards and Controls of Euratom;
Mr. Theodore Vogelaar, Director-General of DG XIV—Internal Market and approximation of Legislation;
- 16.30–17.30 Mr. Jahn Halvorsen, Ambassador of Norway to the European Communities.
- March 23, 1973*
9.30–10.30 Mr. A. Hartman, Deputy Head of the U.S. Mission to the EC.
- 10.30–11.30 Mr. P. Talvitie, Ambassador of Finland to the European Communities.

ADDENDUM

THE SENATE OF CANADA

Fourth Session—Twenty-eighth Parliament

1972

(Issues Nos. 2 to 5 inclusive)

First Session—Twenty-ninth Parliament

1973

(Issues Nos. 1 — 2 inclusive)

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

INDEX

OF PROCEEDINGS

Respecting:

**Canadian Relations with the Expanded
European Communities**

THE SENATE OF CANADA

The Standing Senate Committee on Foreign Affairs
(Fourth Session (Issues No. 2,3,4,5)—Twenty-eighth Parliament, 1972)
(First Session (Issues No. 1 and 2)—Twenty-ninth Parliament, 1973)

INDEX OF COMMITTEE PROCEEDINGS

RESPECTING CANADIAN RELATIONS WITH

THE EXPANDED EUROPEAN COMMUNITIES

Explanatory Notes

This is an Index of the Proceedings of the Standing Senate Committee on Foreign Affairs respecting Canadian Relations with the Expanded European Communities. These studies were carried out during the Fourth Session of the 28th Parliament and the First Session of the 29th Parliament.

A double asterisk indicates entries and pagination for the 1st session of the 29th Parliament.

Canada

Canadian companies operating in Europe, list	3:20-21
**Exchange market, floating rate	**2:10-12
**Exports	
EEC high duty rates	**2:15
Percentage GNP, other countries comparison	**2:8-9
Great Britain entrance to EEC, exports, effect	2:6,2:9,2:10,2:14,3:7-9,3:13,3:16-17, 3:21,5:13
95-cent dollar, prospect	5:13-14
**Population market, 1980	**2:12
**Tariffs	**2:14-15
Trade	
Commonwealth countries	3:13
Europe, European Economic Community	2:6,2:9,3:13,3:15-17,3:19,5:6, **2:6-7,2:10
France	3:10,3:12
Great Britain	2:6,2:9,2:10,2:14,3:7-9,3:22,**2:7
Japan	2:9,2:11,2:12,3:6-7,3:15,3:18-19
Mediterranean rim countries, sales negotiations	3:11
"Multilateral"	2:7-8,4:9,5:9,5:12
Trade, monetary, economic relations, United States	2:6,2:7,3:13,4:13,4:14,5:5-7,5:10,5:12-14, **2:6-7,2:12-13,2:16
**United States administration initiatives, support	**2:9-10
**World blocs, effect	**2:9,2:12-13
<i>See also</i>	
Industry, Trade and Commerce Department	
Canadian Pulp and Paper Association	
Missions to EEC countries	3:9
**Club of Rome	
Function	**1:18
Common Market	
<i>See</i>	
European Economic Community	
Commonwealth countries	
Access to EEC	3:18-19
Trade with Canada, bilateral	3:13
**Corporations	
Multi-national, funds movement	**2:12

Double asterisk (**) indicates 1st session, 29th Parliament

**Council of Europe	
Function, decline	**1:11
EEC	
See	
European Economic Community	
**Euro-dollar	
Situation	**2:12
Europe	
Growth rate, comparison United States, Japan,	
Canada	**2:6-7
Preoccupations present time	2:7-9
Unification, sense "manifest destiny"	2:6
European Economic Community	
**Agriculture policy	**1:16-17,2:6,2:8,2:10,2:12-14
**Canada	
Exports Europe	**2:6-7
Relationship	1:6-8,1:14,1:16,1:21-22
Special relationship	1:17,1:21-22,2:5-7,2:9
**Commission	
Role, importance	**1:8,1:10
Staff	1:8
**Complexity	**1:21
**Council of Ministers	**1:8,1:10
Duties on imports	4:8,4:9
Energy policy	4:15-16
Expansion	
Agricultural imports	2:6,2:10,2:14
Canada	
Bilateral trade arrangements	3:12,5:9-10
Consultations, trade and industrial missions,	
salesmanship	2:10-11,2:15,3:5,3:9,3:11,3:18,3:22, 4:15,4:16
Embassy, Brussels, operations, enlargement	2:10,2:13-15,3:11,3:19,4:16
Pepin, Hon. J.-L., Minister, significance,	
impact, statement	3:7-14
Relationship	2:5-17,3:7-21,4:9-16,5:5-15
Sharp, Hon. Mitchell, Secretary of State for	
External Affairs, Canadian relations, state-	
ment	2:5-7
Strategy for future	3:11,3:13
Trade options	3:13-15
Currencies, unification	2:15-16,5:6,5:7-8
Foreign investment, attitude	2:6,2:12
Future	4:13,5:6-7,5:9-10
Information offices, abroad	2:14,4:15
Institutions, enlargement, changes	4:7-8,4:9-10,4:12
Member countries, original, new, population	2:5,2:11-12,3:7
Preferential trade arrangements	2:8-9,2:17
Significance	
Economic	3:7
Political	2:12,2:13,2:16,3:7,3:13,4:5-13
Social	2:15-16,4:14
U.S.S.R., impact, comments	2:12-13,4:14
Gross National Product of member countries	3:17
**Mission in Ottawa, establishment	**1:9
**Mission in Washington	**1:9
**Monetary policy	**2:8,2:11-12
**New identity, next year crucial	**1:6-7
**Nine countries, 250 million people	**1:11
**October summit	**1:6,1:13-14,1:20

Double asterisk (**) indicates 1st session, 29th Parliament

**Permanent representatives	**1:8
**Political, original incentive	**1:5,1:9
**Population market 1980	**2:12
**Present status objectives, future	**1:5-8
**Purpose	**2:6
Statistics, Canadian exports	3:16-17
Studies, University of Montreal	4:6,4:10-11
**Tariffs	**1:15-16,2:14-15
Negotiate as bloc, one voice	2:10
**Trade	**1:6,1:14-15,1:17-19
Negotiate as bloc, one voice	2:10
Treaty of Rome	
Article 237—Membership	4:8
Article 238—Association agreement	4:14-15
**United Kingdom entry, effect	**1:13,1:20-21
**United States	
Relations	**1:6,1:14-16,1:21,2:6
Ways and Means Committee visit to Brussels	1:17
**European Parliament	
Powers, members	**1:10
Foreign Affairs Senate Standing Committee	
**Brussels trip, European Economic Community, approach	**1:7-10,1:14-18,2:5
Report on Canadian Relations with the countries of the Pacific Region	1:1-54
Highlights of Conclusions and Recommendations	1:45-51
Index of Committee Proceedings (Third Session)	1:i-v
Pepin, Hon. J.-L., remarks	3:6-7
Table of contents	Issue 1 n.p.
Witnesses heard, list	1:53-54
GATT	
<i>See</i>	
General Agreement on Tariffs and Trade	
General Agreement on Tariffs and Trade	
Future	2:11-12,3:11
**Most-favoured-nation principle, EEC effect	**2:10-11,2:14-15
Support continued, suggested	5:12,5:14
Great Britain	
European Economic Community, entrance, effect on Canada	2:6,2:9,2:10,2:14,3:7-9,3:13,3:16-17,3:21,5:13
**Monetary policy	**2:12
New Zealand, special treatment, dairy products	3:21,4:16
Statistics exports from Canada, 1966, 1971	3:16
IMF	
<i>See</i>	
International Monetary Fund	
Industry, Trade and Commerce Department	
Capital projects, bidding cost, payment, ceiling	3:10
Fairs and Missions Branch, expenditure 1971/72	3:9-10
Incentives, risk-sharing, Canadian manufacturers abroad	3:10
Incoming of Buyers Program	3:10
Shipbuilding Temporary Assistance Program	3:10
Trade commissioner service	3:9

Double asterisk (**) indicates 1st session, 29th Parliament

International Monetary Fund

- **Creditors and debtors reciprocal responsibility **2:11,2:13
- **Exchange rates, adjustment flexibility **2:11,2:13-14
- **International fulcrum necessary **2:13
- **Necessary, rules need change **2:13
- Role, objectives 5:8,5:12,5:13
- **Special Drawing Rights (SDRs) **2:13
- **United States dollar position of a fulcrum, effect **2:11,2:13-14

International Monetary System

- Euro-dollar, definition 5:14
- **Gold, role **2:15-16
- **Instability factors **2:11
- Problems, remedial actions 5:5,5:7-8,5:11-12
- **World system **2:12-13

Japan

- Canada, trade 2:9,2:11,2:12,3:6-7,3:15,3:18-19
- International economic system, discussions 5:9
- **Netherlands, electronic goods **1:19
- **Population market 1980 **2:12
- **United States—European Community, situation **1:6,1:19-21
- United States, trade concessions 5:7

NATO

- **Activity, future **1:12-13
- Status 2:16

New Zealand

- Great Britain, dairy products, special treatment 3:21,4:16

North Atlantic Treaty Organization

See
NATO

****OECD**

See
Organization for Economic Co-operation and
Development

****Organization for Economic Co-operation and Development**

- Activity, future **1:12
- Rey Committee Report 2:5,2:10,2:13

Pentland, Dr. Charles, Assistant Professor, Dept. Political Studies, Queen's University, Kingston, Ont.

- Curriculum vitae 4:5
- European Economic Community, political development, statement 4:5-9

Pepin, Hon. J.-L., Minister of Industry, Trade and Commerce

- European Economic Community, enlargement, significance impact, statement 3:7-14
- Report on Canadian Relations with the countries of the Pacific Region, remarks 3:6-7

****Plumptre, A.F.W., Special Adviser on Government Relations, International Development Research Centre**

- Curriculum vitae **2:5
- Statement 2:5-9

****Rey Committee**

See
Organization for Economic Co-operation and
Development

**Rogers, F.L., Financial Adviser, Bank of Nova Scotia,
Toronto, Ont.**

Curriculum vitae 5:5
International trade and finance, statement 5:5-8

****Schaezel, J. R., former United States Ambassador to
the European Economic Community**

Biographical data **1:5
Fortune, article 1:7,1:21
Statement 1:5-7
"World adrift", explanation 1:6,1:11-12

**Sharp, Hon. Mitchell, Secretary of State for External
Affairs**

European Economic Community, Canadian rela-
tionship, statement 2:5-7

United States

**Administration initiatives **2:8-10
Canada, Trade, monetary economic relationships 2:6,2:7,3:13,4:13,4:14,5:5-7,5:10,5:12-14,
**2:6-7,2:12
**Currency support **2:14
**International Monetary Fund, dollar position of a
fulcrum, effect **2:11,2:13-14
**Population market 1980 **2:12
**Preoccupations **2:8-10
Trade concessions, obtained, tried for 5:7

Documents

Industry, Trade and Commerce Dept., additional
information 4:4

Witnesses

—Dupuy, Michel, Assistant Under-Secretary of
State for Economic and Social Development,
Dept. of External Affairs 2:13-14
—Elliott, G., Chief EEC Enlargement Task Force,
European Affairs Branch, Industry, Trade
and Commerce Dept. 3:21
—Lane, A. W., Director, European Affairs Branch,
Office of Area Relations, Industry, Trade and
Commerce Dept. 3:10,3:12,3:16-21
—MacNaughton, F. J., Chief, Overseas Market
Development Division, International Defence
Programs Branch, Industry, Trade and Com-
merce Dept. 3:10
—Pentland, Dr. Charles, Assistant Professor,
Dept. of Political Studies, Queen's University,
Kingston, Ont. 4:5-16
—Pepin, Hon. J.-L., Minister of Industry, Trade
and Commerce 3:5-22
**—Plumptre, A. F. W., Special Adviser on Govern-
ment Relations, International Development
Research Centre **2:5-16
—Rogers, F. L., Financial Adviser, Bank of Nova
Scotia, Toronto, Ont. 5:5-15
**—Schaezel, J.R., former United States Ambassa-
dor to the European Economic Community **1:5-22
—Sharp, Hon. Mitchell, Secretary of State for
External Affairs 2:5-17

The Honourable Senators

Chairman:

—Aird, John Black (Toronto) 2:5,7,11,13-17; 3:5,7,10-11,18,22;
4:5,9,11,15-16; **1:5,7,11,14,22; 2:5,7-9,12,14-16

Deputy Chairman:

—Grosart, Allister (Pickering)	2:7-9,16-17; 3:12,14,16-18; 4:11-12; 5:5,8,10, 12-13,15; **1:14-17; 2:6-7,12
**—Bélisle, Rhéal (Sudbury)	**1:11,13-14
—Cameron, Donald (Banff)	2:14-16; 3:14,19-20; 4:15-16; 5:13; **1:18-19
—Carter, Chesley W. (The Grand Banks)	2:11-12; 4:13-14; 5:10-12; **1:17-18; 2:9-11,15-16
—Choquette, Lionel (Ottawa East)	3:6
—Connolly, John J. (Ottawa West)	2:10-11,13,15; 3:6-7,9-15,17-19,22; 5:7-10
—Croll, David A. (Toronto-Spadina)	3:13,16-18,21
**—Deschatelets, Jean-Paul (Lauzon)	**2:16
—Fergusson, Muriel McQ. (Fredericton)	2:15-16; 4:14-15
—Flynn, Jacques (Rougemont)	3:6-7,12,15-17,21; **1:10-11
—Heath, Ann Elizabeth H. (Nanaimo-Malaspina)	2:16
—Lapointe, Renaude (Mille Isles)	2:16; 3:20; 4:14-16; **1:21; 2:12
—McElman, Charles (Nashwaak Valley)	2:16
—McNamara, William C. (Winnipeg)	2:9-10; 5:8-10,14
**—Macnaughton, Alan (Sorel)	**1:7,9-10,21-22; 2:9,11-12,14,16
**—Molgat, Gildas L. (Ste. Rose)	**2:13
**—Rattenbury, Nelson (Southern New Brunswick)	**1:20
—Sparrow, Herbert Orville (The Battlefords)	5:14
**—van Roggen, George C. (Vancouver Point-Grey)	**2:7,13
—White, George S. (Hastings-Frontenac)	2:14
—Yuzyk, Paul (Fort Garry)	2:13-14; 4:9-10,12; **1:12-13

Double asterisk (**) indicates 1st session, 29th Parliament

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First Session—Twenty-ninth Parliament

1973-74

Canada. Parliament

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

1973-74 Session

W 4

INDEX

OF PROCEEDINGS

(Issues Nos. 1 to 3 inclusive)



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Explanatory Note

R stands for Report (3rd issue), followed by pagination

INDEX

- Aird, Hon. John B. (Toronto), Committee Chairman** 1:5, 7, 11, 14, 22; 2:5, 7-9, 12, 14-6
- Belisle, Hon. Rhéal (Sudbury)** 1:11, 13-4
- Cameron, Hon. Donald (Banff)** 1:18-9
- Canada**
 European visitors, other programs R:28-31
 Exchange market, floating rate 2:10-2
 Exports
 EEC high duty rates 2:15
 Percentage GNP, other countries comparison 2:8-9
 Population market, 1980 2:12
 Tariffs 2:14-5
 Trade
 Europe, European Economic Community 2:6-7, 10; R:17-24, 37-8, 47-9
 Great Britain 2:7; R:17-3, 38, 47-9
 Trade, monetary, economic relations, United States 2:6-7, 12-3, 16
 United States Administration initiatives, support 2:9-10
 World blocs, effect 2:9, 12-3
- Carter, Hon. Chesley W. (The Grand Banks)** 1:17-8; 2:9-11, 15-6
- Club of Rome**
 Function 1:18
- Corporations**
 Multi-national, funds movement 2:12
- Council of Europe**
 Function, decline 1:11
- Court of Justice**
 Function R:43
- Deschatelets, Hon. Jean Paul (Lauzon)** 2:16
- E.C.-E.E.C.**
See
 European Economic Community
- Euro-dollar**
 Situation 2:12
- Europe**
 Growth rate, comparison United States, Japan, Canada 2:6-7
 Preoccupations present time 2:7-9
 Unification, sense "manifest destiny" 2:6
- European Atomic Energy Community (Euratom)**
 Function R:43-4
- European Coal and Steel Community (ECSC)**
 Function R:43-4
- European Economic Community**
 Agreements, survey R:45-6
 Agriculture, policy 1:16-7; 2:6, 8, 10, 12-4; R:5, 20-1, 37-8
 Canada
 Ambassador R:12
 Business, investment contacts R:17-20, 36-7
 Exports, imports 2:6-7; R:47-9
 Importance R:1-3
 Prime Minister, official visit R:17, 36
 Provincial government contacts R:16, 23-4, 36
 Relationship 1:6-8, 14, 16, 21-2; R:11-24
 Special relationship 1:17, 21-2; 2:5-7, 9; R:15-6
 Commission
 Role, importance 1:8, 10; R:5-6, 11, 33, 35, 41-2
 Staff 1:8
 Complexity 1:21
 Council of Ministers 1:8, 10; R:6-7, 11, 35, 42
 Customs Union R:5-6
 Information Centre in Ottawa, establishment R:27-8, 39
 Institutions of R:41
 Mission in Ottawa, establishment 1:9; R:27
 Mission in Washington 1:9
 Monetary policy 2:8, 11-2
 National sovereignty R:7
 New identity, next year crucial 1:6-7
 Nine countries, 250 million people 1:11
 October summit 1:6, 13-4, 20; R:7-9, 11-2
 Permanent representatives 1:8
 Committee R:42-3
 Political, original incentive 1:5, 9
 Population market 1980 2:12
 Present status, objectives, future 1:5-8, 12-3; R:5-9, 43-4
 Purpose 2:6; R:5, 33
 Tariffs 1:15-6; 2:14-5
 Negotiate as bloc, one voice 2:10
 Trade 1:6, 14-5, 17-9; R:6
 Negotiate as bloc, one voice 2:10
 United Kingdom entry, effect 1:13, 20-1; R:38
 United States
 Relations 1:6, 14-6, 21; 2:6
 Ways and Means Committee visit to Brussels 1:17
 Visits, young people, interns R:28-30
- European Parliament**
 Canada establish regular link R:25-6, 38-9
 Influence, responsibility R:25
 Powers, members 1:10; R:43
 Question Period R:25
- Flynn, Hon. Jacques (Rougemont)** 1:10-1
- Foreign Affairs Standing Committee**
 Brussels trip, European Economic Community 1:7-10, 14-8; 2:5; R:25-6, 52

- Date meeting, witnesses heard; Brussels visit, briefings, hearings, discussions R:51-2
- General Agreement on Tariffs and Trade**
Most-favoured-nation principle, EEC effect 2:10-1, 14-5
- Great Britain**
Monetary policy 2:12
- Grosart, Hon. Allister (Pickering), Committee Deputy Chairman** 1:14-7; 2:6-7, 12
- International Monetary Fund**
Creditors and debtors reciprocal responsibility 2:11, 13
Exchange rates, adjustment flexibility 2:11, 13-4
International fulcrum necessary 2:13
Necessary, rules need change 2:13
Special Drawing Rights (SDRs) 2:13
United States dollar position of a fulcrum, effect 2:11, 13-4
- International Monetary System**
Gold, role 2:15-6
Instability factors 2:11
World system 2:12-3
- Japan**
Netherlands, electronic goods 1:19
Population market 1980 2:12
United States—European Community, situation 1:6, 19-21
- Lapointe, Hon. Renaude (Mille Isles)** 1:21; 2:12
- Macnaughton, Hon. Alan (Sorel)** 1:7, 9-10, 21-2; 2:9, 11-2, 14, 16
- Molgat, Hon. Gilles L. (Ste. Rose)** 2:13
- NATO**
Activity future 1:12-3
- OECD**
See
Organization for Economic Co-operation and Development
- Organization for Economic Co-operation and Development**
Activity future 1:12
Rey Committee report 2:5, 10, 13
- Plumptre, A. F. W., Special Adviser on Government Relations, International Development Research Centre**
Curriculum vitae 2:5
Statement 2:5-9
- Rattenbury, Hon. Nelson (Southern New Brunswick)** 1:20
- Report to the Senate**
Committee opinions R:9, 12-8, 23-5, 27-31
Conclusions, recommendations, summary R:33-9
Table of Contents R:unp.
Text R:1-39
- Rey Committee**
See
Organization for Economic Co-operation and Development
- Schaetzel, J. R., former United States Ambassador to European Economic Community**
Biographical data 1:5
Fortune, article 1:7, 21
Statement 1:5-7
"World adrift", explanation 1:6, 11-2
- United States**
Administration initiatives 2:8-10
Canada, trade, monetary, economic relationships 2:6-7, 12
Currency support 2:14
International Monetary Fund, dollar position of a fulcrum, effect 2:11, 13-4
Population market 1980 2:12
Preoccupations 2:8-10
- vanRoggen, Hon. George C. (Vancouver-Point-Grey)** 2:7, 13
- Yuzyk, Hon. Paul (Fort Garry)** 1:12-3
- Appendices**
Issue 3
A—Institutions of the European Community R:41-4
B—Survey of EC Agreements R:45-6
C—Statistical Annex R:47-9
D—Standing Senate Committee on Foreign Affairs (1972-73) R:51-2
- Witnesses**
—Plumptre, A. F. W., Special Adviser on Government Relations, International Development Research Centre
—Schaetzel, J. R., former United States Ambassador to European Economic Community
- For pagination *see* Index in alphabetical order



SECOND SESSION—TWENTY-NINTH PARLIAMENT
1974

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

THURSDAY, MARCH 28, 1974

First Proceedings Respecting:

Canadian Relations with the
United States

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, March 28, 1974.

(2)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 8:03 p.m. this day.

Present: Honourable Senators Aird, Belisle, Cameron, Carter, Connolly (*Ottawa West*), Grosart, Hastings, Lafond, Laird, Macnaughton, Martin, McElman, McNamara, van Roggen and Yuzyk. (15)

Also present but not of the Committee: The Speaker of the Senate, the Honourable Senator Fergusson; and Honourable Senators Heath and Lang.

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee proceeded to its consideration of Canadian relations with the United States.

WITNESSES: From the Department of External Affairs: Honourable Mitchell Sharp, Secretary of State for External Affairs; and Mr. Keith MacLellan, Director of U.S.A. Division.

The Honourable Mr. Sharp tabled two documents which were identified as follows:

a) List of Treaties and Agreements entered between Canada and the United States in force February 1, 1974. (*Exhibit No. 1*)

b) List of Canada-United States Intergovernmental Bodies. (*Exhibit No. 2*)

On motion of Senator Carter,

Ordered, that the two documents, mentioned immediately above, be printed as Appendices "A" and "B", respectively, to this day's Proceedings.

On the suggestion of the Chairman, *Agreed,* that the Committee increase the number of its printed Proceedings to 1500 English copies and 500 French copies.

At 10:15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, March 28, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 8 p.m. to examine Canadian relations with the United States.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Mr. Minister and honourable senators, welcome to this first meeting in our study of Canada's relations with the United States.

Once the committee had decided to look at this subject it was clear that our starting point should be Mr. Sharp's paper on the subject "Options for the Future" published a year and a half ago.

The other day I was reading a speech he gave on this subject to the Canadian press last year. You may recall it, sir. It was on May 2, and it was a very amusing and interesting speech, by the way.

In that speech Mr. Sharp explained that the "Options" paper represented an attempt to give a sense of direction to our relations with the United States. He admitted that at the time of the formulation of the paper there were some misgivings in government circles about the government opting for any particular direction in our relations with the United States. "Why take a public position?" he was asked. "Why not play it by ear and leave all the options open? Why give the opposition something else to criticize?" But he said the government came to the conclusion that playing it by ear or continuing on with the more or less *ad hoc* reactive policies toward the United States was no longer good enough. It was decided that a sense of direction had to be given to our relations.

So the study was undertaken and the "Options" paper was published and, in a sense, it presented an invitation to public debate on and criticism of the wisdom of the choice of the third option.

In our study of Canada-U.S. relations this committee is opening up a forum for such public debate and criticism. We want begin with an overview of the whole Canadian-American relationship.

It was evident that the "Options" paper should be the starting point, and the minister the first witness to present and speak to his paper.

We are very happy he was able to oblige and to arrange to be with us this evening.

I might just say in passing how proud I am to see so many senators here, both members of the committee and non-members. It is very heartening.

We hope the minister will be able to give us the reasons why the government resisted the qualms of some of its members and considered it had to go ahead and make a choice, and why he thinks this is the right direction for

Canada to take in its relations with the United States at this time.

Mr. Sharp, we know how busy you are and we understand the heavy demands which are made upon your time. Thank you very much, Mr. Minister, for your unfailing courtesy and co-operation.

Honourable senators, following our usual procedure, after the minister's opening remarks Senator van Roggen has agreed to lead the questioning, and then the Chair will recognize individual senators as they wish to participate in the debate.

Once again, sir, you are most welcome.

Hon. Mitchel Sharp, Secretary of State for External Affairs: Mr. Chairman and honourable senators, I am happy to be here this evening. May I congratulate you on the study you are undertaking, and may I say that I am flattered that the paper to which I put my name, on options, is one of the starting points for your discussion.

I intend this evening to open with a statement on Canada-United States relations, prefaced by some remarks about the international system within which one must look at these relationships at the present time.

The relationship Canada has with the United States is unique and by far the most important of our bilateral relationships.

It operates in three main areas:

First, in respect of global, political and security issues which affect Canada, but in which we are not directly involved but where we lend our efforts to a solution. Examples of this are Vietnam and the Middle East.

Secondly, in respect of multilateral questions, in which Canada is directly involved and where we may support, seek the support of, or indeed oppose the United States, such as the Law of the Sea.

Thirdly, in respect of the many problems which are special to us, where we seek to promote or protect the Canadian interest through mutual accommodation, such as oil and gas export.

The relationship, therefore, between Canada and the United States, even in the strictly bilateral area, is significantly affected by developments abroad. It is useful, therefore, to look briefly at what the political scientists call the "international system". The post-war structure of international relationships and institutions is undergoing very important changes in the seventies.

Let me describe these changes under three headings:

First, changing relationships at the political level. The achievement of nuclear parity has led the two super powers—the United States and the Soviet Union—to seek appropriate means for stabilizing their relationship.

Negotiation has replaced the confrontation of the cold war period. The United States is in the process of completing the initial SALT agreement with a second agreement to cover offensive weapons. Détente is being pursued at both the multilateral level, such as in the Mutual and Balanced Force Reductions talks and at the Conference on Security and Co-operation in Europe, and at bilateral levels, in augmented commercial, technological and cultural exchanges between East and West.

Diplomatic contacts, if not formal diplomatic relations, have been established between Washington and Peking. Regrettably, there has not been a similar improvement in relations between Moscow and Peking even though diplomatic relations are formally correct. The United States has withdrawn its combat units from Viet-Nam and is actively pursuing peace in the Middle East with at least the tacit approval of the Soviet Union. Many aspects of traditional defence relationships are in the process of re-examination in the context of the changing international strategic environment.

The second change relates to the new functional influences on the international system. These go beyond the traditional concerns over economic or military power we have been accustomed to.

These new influences involve such comparatively new considerations as the recognition of the finiteness of world resources—and, consequently, new attitudes on the terms on which these resources will be made available to meet global demand; dangers to the world environment; managing new technology; the power of modern communications; and needs of less developed countries. These factors are major modifiers of the current international scene. Their impact on the international political situation, including on existing political alignments, is only beginning to be felt.

The so-called energy crisis is a dramatic illustration. It has touched off a spate of attempts at bilateral supply arrangements, which are having their effects on relations between the United States and many of its allies. It has led to attempts, under the sponsorship of the United States, to approach the problem as a global one. Canada supported this concept and was instrumental in moving the initial discussions to wider forums, which will include not only the less developed countries, but producing countries as well. The energy crisis has forced us to re-examine our own position and to take measures to ensure Canadian security of supply. This, in turn, has required us to enter upon intensive and continuous consultations with the United States on oil exports.

The third heading under which I want to describe changes in the "international system" is international trade and payments. On this, the effect of the energy crisis has been convulsive.

Well before the curtailment of the international supply of crude oil it was abundantly clear that the pattern of international economic relationships had been dramatically altered. Japan had emerged as a major economic force. The European Community had expanded and strengthened to the point of rivalling the United States in global economic terms. Since the introduction by the United States of the new economic policy in August, 1971, the post-war system of trade and payments based on the Havana Charter and on Bretton Woods has been in the process of restructuring. Until the oil crisis emerged there

were encouraging prospects for developing a reformed monetary system at a fairly early date.

Similarly, preparations were well advanced for entering into substantive negotiations in the "Tokyo Round" of tariff and trade negotiations. The price increases for crude oil have had a devastating effect on the balance of payments of a large number of the developing countries and have posed very significant problems for even the wealthiest nations. As a consequence, discussions of the international monetary situation have tended to focus on the question of ensuring stability and on finding means of assisting those countries hardest hit by oil price increases, with less stress than formerly on developing a comprehensive reform of the monetary system. With respect to the multilateral tariff and trade negotiation, it is not clear at this stage to what extent the "Tokyo Round" will be affected by emerging economic issues such as resource scarcity. In addition to focusing on the reduction of tariff and non-tariff barriers to trade in order to improve access to markets, it may become necessary in the course of these negotiations to consider the question of secure access to supplies of oil and other raw materials.

Given these three major elements, the changing international system of which Canada is inextricably a part will profoundly influence our future. We are therefore engaged in all aspects of it. Our first concern is to protect Canadian interests, but in the wider, not narrower, sense. Nevertheless, there are limits to the available options. We are exposed to an international environment over which we have incomplete control. But it provides us with opportunities, since others, even the great powers, also face constraints. Finally, it conditions significantly our relationship with the United States, which will inevitably be a key player in all important areas.

Now let me turn more specifically to our relations with the United States in the light of the description of the international system which I have just given.

As this decade got under way, the government, in response to these changes in the international system, began a foreign policy review which led to a number of innovations, including the development of relations with the Soviet Union, and the recognition of China. There was a time when these measures were misunderstood in the United States. This undoubtedly had implications for bilateral questions. However, the foreign policy changes which flowed from the Nixon Doctrine, and United States rethinking on many of these same questions, have meant that the Canadian and American perceptions of the political and strategic aspects of the external world are again largely in parallel.

I can remember very well, Mr. Chairman, when I was being criticized, and the government was being criticized, for having offended the United States by seeking closer relations with the Soviet Union, and for trying to establish diplomatic relations with Peking; but it was not very long until Mr. Nixon followed in the path of Mr. Trudeau, and Mr. Nixon went to China, following the recognition by Canada of that regime. He did not quite accomplish what we accomplished in establishing diplomatic relations, but it was quite clear that there was no divergence in fundamental policy between our two countries, and this, I think, has become clearer as the months have passed.

Moreover, our views on the larger multilateral trade and payments question are broadly similar during this

period of substantial change in the international monetary and trading world.

Perhaps as good evidence of that as any was the very close similarity of approach that the Canadian and American delegations took at the recent Washington energy conference, which was largely concerned with the monetary and trading aspects of the very rapid increase in oil prices.

But the economic relationship between our two countries has greatly changed. Since August 1971, the United States has been pursuing what it called the New Economic Policy. Canada, for its part, has been intent on strengthening its economy, and diversifying its external economic relationships, in order to reduce our vulnerability. We have each acted in response to domestic and international circumstances in pursuing separately our own perspective of our own respective national interest.

Nevertheless, the United States and Canada remain each other's most important customer. In fact, the trend for the foreseeable future points towards a continuation of this mutually advantageous situation.

We are no longer at a stage where the trade "irritants" of 1971-72 assume so much immediate importance. These have taken on a different perspective when viewed against the energy crisis and the other international developments that I have been describing. There has also been a recovery in the United States balance of payments.

The atmosphere is accordingly very much improved. But the situation is quite different from what it was in the 1960s. As I told the House Standing Committee on External Affairs and National Defence on March 19, we are in a period of adjustment to many domestic and international circumstances. National policies in both Canada and the United States, in several areas, such as the resources, economic and environmental sectors, will not necessarily coincide.

The Canadian objective is to expand and strengthen the Canadian identity and the Canadian economy.

To this end, our aim internationally will be to endeavour to ensure that any measures adopted will be compatible with these goals. Domestically, if we are to meet our social and economic requirements our industrial and manufacturing sectors will need to be strengthened. The level of employment will have to increase, so as to be in step with an expanding labour force. As you know, honourable senators, Canada has probably the most rapidly expanding labour force of any industrialized country. Regional disparities must be reduced. This will require Canadian decisions on locating industries in areas where they will most benefit our society as a whole. In the resources sector it will mean the development of mineral resources at our own pace, and the encouragement of further processing in Canada.

Our purpose is not to take unfair advantage, as some have alleged, of the United States, or to ignore its needs, or to eliminate a co-operation which has been so beneficial to both countries. Our purpose is to ensure a fair return in terms of our own requirements, and to support the international trade and payments system.

Similarly, in the environmental field we shall continue to protect essential Canadian rights and interests through the process of consultation and negotiation. Four matters in this area have been the subject of considerable recent public attention. I mention these four as obvious and

outstanding cases that have been in the public press recently. They are:

- The proposed flooding of the Skagit Valley
- The Garrison diversion
- The West Coast tankers problem; and the
- Reduction of pollution in the Great Lakes.

In each case, we are pursuing Canadian requirements actively.

While Canadian and United States policies in the multilateral field are largely in parallel, there is nevertheless a need to inform and consult with the United States to ensure that policies and actions affecting each other's interests will not be misunderstood or misinterpreted. For example, our search for balance and diversification in our external relations is leading us to broaden our relations with the European Community. At the same time the United States is taking important initiatives of its own towards the Community and towards the Atlantic Alliance as a whole.

I am very much concerned at the current tension which has arisen between the Community and the United States. The United States and the Community members include our major allies. It is necessary for Canada that the widest possible measure of co-operation and understanding exist with them and also, I must say, between them. We also need to ensure that political co-operation between Canada, the United States and the Community is maintained within the NATO framework, not only in the interest of collective defence but also in the common pursuit of détente.

Tension and disharmony between the two sides of the Atlantic will inevitably be to Canada's disadvantage. I have for some years been concerned with this problem, and in 1971 drew the attention of both the NATO Council and of the OECD to the danger to the economic and financial environment, and therefore to Canada, of any misunderstanding or lack of consultation on economic questions. The same holds true if there is discord on political questions. The third option is based, as I have said, on the diversification of our relations, not on our having to choose between our major partners and allies.

Furthermore, equilibrium must be restored in the world trading and payments systems. Otherwise economic management, both by government and by private industry, in Canada and in other trading countries, will be severely hampered. This equilibrium cannot be brought about in circumstances when the major trading nations on the two sides of the Atlantic are, as they seem at present, unable to take fully into account each other's requirements.

Similarly, our current efforts to explore with the Japanese new avenues for fruitful co-operation in economic and other matters should be seen as a natural manifestation of our diversification policy. It is also, of course, a response to the new status of Japan in industrial, commercial and also political terms.

Mr. Chairman, let me put this question to you, because I am sure it is one to which your committee will be devoting a good deal of attention. How should the Canada-U.S. relationship be managed in the period ahead? There exists a range of older and newer bilateral mechanisms on which the Canada-U.S. relationship has relied and continues to rely.

Such mechanisms wax or wane in response to changes in the nature of the relationship. In the period of the 1940s

through to the 1960s there was a disposition on both sides to develop joint ministerial bodies for co-operation, particularly in the important fields of economics, trade and defence.

There has been less use of these joint ministerial mechanisms in recent years. Contacts between the ministerial counterparts in the two governments, either directly or through various multilateral meetings, have been a frequent and effective substitute for the more elaborate and more formal joint cabinet committees. Such meetings have, for instance, taken place in the past six months on foreign affairs, finance, trade, energy, environment, and agriculture. There is also greater reliance on standard negotiating practices on an issue-by-issue basis. This is consistent with the emphasis given by both countries since 1970 to national rather than continentalist policies.

I do not believe that we need be unduly concerned that the joint ministerial mechanisms have not been employed frequently in recent years. We have found other ways to respond effectively and quickly to rapidly changing events. Indeed, the relationship between our two countries in such that we can easily and quickly establish new mechanism as required—continuing or *ad hoc*—to meet new situations.

In addition, there are important specialized mechanisms. Two notable ones are the unique and now venerable Permanent Joint Board on Defence, of which your chairman is an illustrious member, and the International Joint Commission. Since its inception some 35 years ago, the role and composition of the PJBD have changed as the nature and requirements of joint defence have changed.

The International Joint Commission is a product of the Boundary Waters Treaty of 65 years ago. It had written into its mandate the potential for a broad role in Canada-United States relations. For a considerable period, however, the Commission confined itself mainly to activities related to regulating of boundary waters. More recently, however, the International Joint Commission has come to assume a much wider role, in a variety of bilateral environmental subjects. It is now and will continue to be a most valuable instrument in helping to manage this sector of our relationship.

We have also, of course, the classical instrument for conducting business between states, our embassy in Washington, with its network of 15 consular missions located throughout the United States. In recent years, we have been giving priority to building up this network so that it can effectively support the embassy in promoting and defending the full range of Canadian interests.

For example, increased emphasis is being placed on providing the American public as well as the United States administration with quick and accurate information on Canada and Canadian policies of interest to Americans. This program has already paid an important dividend. I believe that it was the energetic public information work of our embassy and consular missions in the United States in recent months which did much to head off misinterpretation and misunderstanding by many Americans of Canadian policy on our oil exports to the United States. The process of strengthening our missions in the United States to meet such demands continues.

To sum up, honourable senators, we are in a new phase of our relations with the United States, in which both countries are adjusting to new conditions abroad and

more effective affirmative national policies at home. In both bilateral and multilateral matters we can expect a period of negotiation and adjustment over a wide range of issues which will need careful handling. There will be a continuing need to select our policies on their own merits in an unemotional, business-like and positive fashion.

Mr. Chairman, I thought it might be useful to the committee if I also submitted to you for the use of the committee two papers: one, a list of treaties and agreements entered into between Canada and the United States which were in force on February 1, 1974; and the other, a list of Canada-United States inter-governmental bodies.

The Chairman: I presume, honourable senators, that it will be in order to annex these to the minutes. Agreed? (Note: See Appendices "A" and "B" to these Proceedings)

Hon. Senators: Agreed.

The Chairman: Thank you very much, Mr. Minister, for your most impressive and full presentation. When I introduced the motion in the Senate on Tuesday evening last I used the two words "constructively" and "carefully" as to our *modus operandi* for carrying out this inquiry. I think it is most interesting that your paper, in effect, responds perhaps to that method of thinking and you have given us, firstly, the overview, and, secondly, you have at some length discussed the management, or the bilateral machinery, for which we are also grateful.

As I indicated at the outset, the method that we will use for proceeding will be for Senator van Roggen to lead the questioning.

Senator van Roggen: Thank you, Mr. Chairman.

Mr. Minister, I do not know if our chairman had it in for you, or for myself, in asking me to lead off this evening. I know that I and many other senators present will have many particularized questions we would like to ask you. However, in leading off, I thought it might be more interesting if I could draw you out philosophically on a rather broader basis to start out discussion tonight.

I am addressing myself to the third option of your paper, which I read with some interest some time ago, at the time we went to Brussels, I think it was, and I refreshed my mind by reading it again today. You and I have had certain contacts over the years which might lead you to believe that I would not necessarily adopt the third option, although I would like to make the point, with which I am sure you would agree, that the lines between the three options, of necessity, are indistinct, they cannot be too sharply drawn. I would like to avoid, if I can, a "motherhood" type of approach to the question I am going to pose, because no one will disagree with our pursuing the best possible avenues of contact and economic development with all countries. That is where the emphasis lies, and it may be important.

The question I put to you is: Have you had any reason to re-assess at all the third option, in the manner in which it is put forth in the 1972 paper, in the light of more recent developments? I might just enumerate them. There is the energy crisis, which is uppermost in our minds and which has changed, in my opinion, the conceptions, of many people, of economic power in the world in the last six or eight months, where it becomes obvious that the Japanese miracle cannot grow to the sky. I will return to that in a moment. Then there are such developments as you mentioned in your opening remarks as the unilateral activities

of France and other countries as a result of the trauma of the energy crisis. There is, of course, the United Kingdom election and its effect on the Common Market; then Mr. Nixon's following, as you quite properly put it, the lead of our Prime Minister, yourself and our government in opening up the United States relationships with China and Russia and putting them, as you quite correctly said, on a more parallel course with ourselves.

This brings me to this question, which I think is germane to the third option. Let me take what I consider to be the three great industrial areas of the world.

The first is Europe, mainly the Common Market, but there may be some peripheral countries involved, which, generally speaking, have a shortage of food, a lack of energy, a lack of raw materials, a quite heavy concentration of population, reasonable living space, but certainly with, as we have seen in the oil crisis recently, a situation in which they can only anticipate probably a lower rather than a higher standard of living in the years to come relative to other areas.

Then Japan—completely vulnerable, with no energy, no food self-sufficiency, no raw materials, only its labour force to function with—will have to maintain a standard of living considerably below that of others in order to maintain its position and find its foreign exchange.

The third is North America, if I can use that term as including Canada and the United States primarily, although Mexico is part of it, where you have, although it is in dislocation at the moment, a surplus of energy, a surplus of food, more than sufficient to pay for the limited amount of raw material that needs to be imported into it, ample living space and the highest technology in the world.

It is my feeling that of these areas the North American has so much going for it that it is going to continue to be, in our lifetime, the most favoured part of the globe, industrially, economically and from the point of view of standard of living.

Keeping in mind also the balance of payments problem, which is going to be much more difficult for Europe and Japan to cope with than for North America which can be self-sufficient and keeping in mind the fact that wage levels that we can compete with exist in North America where they do not exist in Japan, and to a lesser extent in Europe, perhaps the United States is not only our greatest problem, looming as large as it does over our shoulder, but it is also our area of greatest opportunity, and I would not like to see our dedication to the third option jeopardize the opportunity that exists in our using the situation that exists at the moment in the world to gain greater access to the United States market for manufactured goods and increase our standard of living as a result.

The Chairman: Before you reply, Mr. Minister, I am sure that we all welcome the Speaker of the Senate, Senator Fergusson. We are honoured to have her with us.

Hon. Mr. Sharp: I would like to thank Senator van Roggen for starting off this discussion in such a vigorous way. So far as the government is concerned—and I think that I speak for it when I say this—we continue to reject the second option. The second option is that we should move ultimately toward greater integration with the United States, presumably in a free trade area or an economic union. That we have rejected and we continue to reject it.

We have then to decide, if we have rejected that, what our policy should be. Should we continue as we had been, which was largely reactive to events, or should we have a sense of direction? I am summarizing the argument of the paper.

We concluded, as the chairman himself concluded from the speech I made contemporaneously with the release of the paper, that we should have a sense of direction.

It is undoubtedly true, as Senator van Roggen has said, that since the time this paper was published there has been a decline in the fortunes of two of the most important economic powers in the world, Europe and Japan, largely because of the emergence of the energy crisis, both countries being very deficient overall in their energy supplies.

It means that the opportunities for diversification will not be as great as one might have anticipated a year ago, before the very rapid increase in the price of oil.

I am still satisfied, however, that the direction of our policy should be towards diversification and achieving as much independence as we can from the United States in the sense of reducing as far as possible our dependence upon them.

I say this in terms, not so much of economics as of our general and overriding political purposes, because I am satisfied that if we did not resist this very strong urge to continentalism, which arises from our proximity to the greatest and most properous power on earth, we would be absorbed.

This, I know, is a question upon which the honourable senator and I are likely to differ, although his views and mine coincide over quite a wide range. I can recall the circumstances under which we were allies in resisting the extreme form of economic nationalism which both he and I abhor, and it is quite clear from the paper that that is not what is being advocated.

It is simply to give a sense of direction to Canadian policy so that we can live distinct from but in harmony with the United States.

To conclude this not very short answer, notwithstanding the changes that have taken place in the world which have reduced the prospects for diversification, it should continue to be the aim of the Government of Canada, in its trade and cultural policies, to try to diversify our relations so as to keep Canada as distinctive a national entity as is achievable in an increasingly international world.

Senator van Roggen: Thank you, Mr. Minister. I do not want to pursue the subject, other than to say that while pursuing this diversification I know, from knowing you, that we will not ignore what is closest to us with regard to opportunities that might exist there. I will leave to another occasion and other witnesses the question or whether or not greater penetration for our manufactured goods in the American market is incompatible with Canadian independence. I think it would increase our independence, but I will not get into that argument now, Mr. Minister. Thank you very much.

Senator Carter: I have two questions, Mr. Chairman.

Mr. Minister, looking back over the past, we have had a lot of misunderstanding with the United States which could have been and, apparently, should have been avoided. I am thinking of trade balances. Apparently, we have

two different systems of bookkeeping. We come up with two different answers to our trade balances. We have the auto pact, and we do the same thing there; we have two systems of bookkeeping with the auto pact. We are now into the oil question.

Only today, on the 12 o'clock radio news, a prominent member of Parliament, a businessman, said that the Arabs were not the greatest gougers, that we also had one up North that was gouging us.

We do not seem to be putting across our message very well. Surely there should be some way of working out a common system so that we use a common yardstick, so that we do not have these unnecessary quarrels about who is gaining from the auto pact or who is gaining from the balance of trade this year or next year, and that sort of thing. Is anything being done to avoid that in the future?

Hon. Mr. Sharp: We are trying valiantly to make the facts of our situation known in the United States. We have made some progress in reducing the disparities arising from the bookkeeping. The staticians have got together and they have reached a much better understanding of the balances between Canada and the United States.

May I offer just a couple of comments on the nature of the problem? Taking the autopact, for example, there are politicians in the United States as well as in Canada who have a local interest in getting re-elected. They are not particularly interested in presenting a balanced view of the situation. Their main interest is in trying to get a change in the agreement that is more favourable to their electors. Because of that they are bound to present what we would consider a biased view. Perhaps some of them feel that some of our politicians do likewise, but that is in the nature of the political process. There is nothing we can do, by way of giving facts, that is going to change that situation.

My own impression, considering the number of contacts that take place between Canada and the United States, between Canadians and Americans, is that the number of problems is remarkably few. I remember talking about this problem on one occasion and getting a rather unexpected retort, which I will repeat. I had said that the greater the number of contacts between peoples, the greater will be the number of problems. More people cross the border between Canada and United States than between any other two countries; there is greater trade between Canada and the United States than between any other two countries; there are more financial dealings between our two countries, more foreign ownership in both directions than anywhere else, and so on. The view I expressed was that if you do not have contacts, you do not have problems. At one time I said, for example, "We do not have any problems with the people of Outer Mongolia because we have no contacts." And when I used that simile, someone in the audience got up and said, "We should establish diplomatic relations with Outer Mongolia immediately!"—which we have done.

Senator Connolly: Any problems?

Hon. Mr. Sharp: They will begin!

With respect to the price at which we are selling oil to the United States, I think, considering the nature of the problem, there is remarkably little misunderstanding. As soon as my colleague, the Honourable Donald Macdonald, explained the situation on television from Washington,

that we were selling our oil at the same price as we were buying it, it became clear to the American people that we were not gouging; that we were exporting about as much as we were importing; and that there was no reason why we should sell it more cheaply than we were buying it. So that problem disappeared.

I have no correspondence from Canadians saying that when they went down to the United States they were discriminated against because of the alleged gouging. I have no correspondence like that, and I can assure honourable senators that anyone who has a complaint about the treatment of Canadians abroad writes to me. So I think the problem is pretty well contained. It is an enormous problem. It operates on both sides, as you know. Canadians have complaints about the United States. Such complaints often indicate just as much ignorance on the part of Canadians about the United States as there is ignorance in the United States about Canada.

Senator Carter: It is this kind of ignorance that is the problem. Here we have two countries which are side by side and which have had very close contacts over so many years and which have, in many instances, a common press and media. Why is it that vital information does not get through, either from them to us or from us to them?

Hon. Mr. Sharp: I had a group of American editors in my office about a year ago, at which time I discussed with them the question of Canadian news in American newspapers. I raised the question as to why there was so little. I mentioned that the *New York Times* might carry a story every other day on Canada, but if you go outside the New York area you get practically no news about Canada, unless there is some sensational scandal or something of that nature.

Senator Cameron: Except for the *Los Angeles Times*, which gives pretty good coverage.

Hon. Mr. Sharp: Yes, generally speaking that is true. In response to my question the editor of one of the metropolitan newspapers said, "Well, you know, we don't get any more news about what is going on in the Midwest, either, in our metropolitan papers. It is not only Canada that misses; we don't get many stories about areas of the United States that are remote. Moreover, if we wanted to get adequate coverage about what is going on in Canada, where would we put one reporter?"

Senator Connolly: It would be a pretty large beat.

Hon. Mr. Sharp: Yes. Would they have their reporter here in Ottawa, in Toronto, in Montreal, in Vancouver? He said, "If we wanted to get adequate coverage of what is going on in Canada, we would have to have a reporter in each part of the country, and it is impossible for us even to contemplate that. We do not even do that in the United States."

Senator Connolly: These were editors of metropolitan newspapers?

Hon. Mr. Sharp: Yes.

Senator Carter: I know everyone wants to ask questions of the minister, Mr. Chairman, so I will cut mine short. Perhaps you can put me down for another round later. There is one final question just before I conclude.

Mr. Minister, you mentioned that we are opting for the third option, and we are going to take a new sense of

direction and develop new initiatives. I presume that means we are going to take a look at the way we are developing our resources with a view to getting as much manufacturing done in Canada as we can, but I will leave that to someone else.

I am more interested in the "new initiatives" which we are taking with respect to Arctic sovereignty and the 200-mile limit at sea for our ocean resources. What are the prospects for progress in those two areas?

Hon. Mr. Sharp: Mr. Chairman, I assume that this is all in the context of Canadian-American relations.

The Chairman: Yes.

Hon. Mr. Sharp: As far as sovereignty in the Arctic is concerned, the Americans have never challenged Canadian sovereignty in the Arctic islands, nor effectively, so far as I know, challenged our sovereignty over the waters between the islands. I am not saying that they have acknowledged our sovereignty, but as far as I know in recent years they have never really challenged it. Admittedly, if I were to put that question to them I might get a very dry answer. I am just talking in terms of practice.

The Americans, for example, do not recognize the unilateral declaration that we made about the 100-mile zone offshore limit to protect the environment, but neither have they challenged it. That, factually, remains the situation.

On the Law of the Sea, we will have some differences with the Americans. Our principal difference, however, I think, will relate to channels where the great maritime powers such as the United States will want to continue to have unrestricted freedom of passage.

On the question of the 200-mile limit for resource exploitation, I am not absolutely sure where the Americans stand on that. If I may say so, however, I believe that there is a very considerable international movement towards a concept of this kind. It all depends upon what one is claiming. We do not claim sovereignty. What we are concerned about is conservation and exploitation; the right of the coastal state to have priority and to have responsibilities and rights superior to those of other countries.

Senator Carter: Are we opting for the continental shelf, or is it just for the straight 200-mile limit?

Hon. Mr. Sharp: So far we are opting for the continental shelf. However, you must bear in mind that on the Pacific coast that would not take us very far out into the sea. It would take us farther on the east coast. So that we have not gone contrary to the 200-mile concept. What we have said, in effect, is: 200 miles plus any of the shelf that extends beyond 200 miles; that is to the limits of exploitability. This is our concept. It does not mean that we would refuse to go along with the 200-mile concept as such, because if we did not do that we would be cutting ourselves off from rights that would otherwise exist in areas where the shelf does not extend.

Senator van Roggen: I should like to ask a supplementary question about the 200-mile limit. Would it be fair to say that there are a number of nations, such as the United States and Britain, who are anxious not to recognize the 200-mile limit, who are sufficiently small in number that when this thing comes to the Law of the Sea Conference,

the smaller nations, such as Canada, will probably carry the vote?

Hon. Mr. Sharp: What has to be recognized about international conferences of this kind is that numbers are not the only factor involved. There has to be acceptance. That is why in this conference the rule of consensus will be followed, as far as it can be followed. One would prefer to get acceptance of changes rather than have them imposed, because such rules cannot be imposed upon reluctant great powers. The rule of consensus will be the one that will be followed as long as it continues making progress. There may come a time when there will be a direct conflict of interest, when voting may be resorted to, but even if it is, that does not mean that particular rule would be accepted where it counted. We are hoping that all countries will begin to see the wisdom of going along with a rule like the 200-mile rule. It is becoming more and more accepted, I quite agree.

Senator Macnaughton: On this 200-mile rule projection I am a little confused. If you do not mean jurisdiction, do you mean control, or do you mean trusteeship? I know it is very hard to determine the law when there is not any, but there is still a little confusion there.

Hon. Mr. Sharp: I suppose there will be until the Law of the Sea is accepted, the changed rules. We do not mean that they should have the same characteristics as the territorial sea. We have a 12-mile territorial sea which is our territory; we have the right of controlling everything within that 12-mile limit. We are not seeking the same sort of control over a 200-mile wide area. What we are seeking in that 200-mile wide area is the right to regulate fishing and exploitation. How it will finally be agreed upon I really do not know, and I do not think anybody else does.

Senator Macnaughton: That is what I was calling trusteeship.

Hon. Mr. Sharp: It is a form of trusteeship, yes, with some priority for the state whose waters are in question.

Senator Cameron: I thought I detected a distinction being made between sovereignty and control. That seems to be a rather fine distinction, and I would like you to elaborate on that.

Hon. Mr. Sharp: Take the question of ships at sea. Ships that are travelling within the 12-mile territorial seas of Canada are within the control of Canada; they can be directed or they can be excluded. No one suggests that ships travelling within the 200-mile zone carrying passengers or freight would be under the control of the coastal state. Not at all. However, if they were engaged in fishing there would be some right to control their activities. If they were boring holes in the continental shelf they would be under the control, and perhaps under the licensing, of the coastal state. That is the difference. We are talking here not about control over the waters as such, but about control over the exploitation of the area.

Senator Cameron: What about a ship going through the Northwest Passage? It is interesting to note a report in tonight's *Ottawa Citizen*, that apparently a Dr. Pharand, speaking at the Law Faculty of the University of Ottawa, dealt with this and said that Canada is likely to sail into some rough waters. That is on the question of the Northwest Passage.

Hon. Mr. Sharp: Let me comment briefly on that. We do not recognize that there is a passage! Historically it has never been used, so how can there be an international passage? That is our position.

Senator Grosart: Admitting, Mr. Minister, that some of the developing nations are perhaps even in the forefront of the movement for an extension of the nationally controlled waters, using that phrase in the broad sense, is there not a very great danger that countries such as Canada are denying to many of the developing nations the last free source of food and other resources, which are the seas above and, to some extent, beyond the continental shelf? It seems to me that the vague terms you are using, and which have been used in all the discussions in the two Conferences on the Law of the Sea, are highly defensive of what seems to me to be a point of view of the "have" nations to extend their "have" control. Why should not Chad, to take an example, a developing nation, landlocked in Africa, have the right to explore for oil on our continental shelf? If every nation is going to move out to the 200-mile limit, surely we are extending the very thing that is the cause of most of the trouble in the world.

Hon. Mr. Sharp: I am not quite sure whether I understand this. This would apply also to Switzerland.

Senator Grosart: Yes.

Hon. Mr. Sharp: I am not sure that I can think of another one that is landlocked that is rich.

Senator Yuzyk: Czechoslovakia.

The Chairman: I think the genesis of Senator Grosart's question lies with the less developed countries. I think this is the point.

Senator Grosart: Yes, I am speaking largely of the less developed countries. I will go further and say that the developed nations have now come up with a number of international treaties for the control of fisheries and so on, which again shut out the small nations. They say, "There are 12 of us; we are going to carve up the whale fishery here." Jamaica, for example, as a small nation, has not the money to develop deep sea trawlers, so the rest of us have carved this up. We say, "It's conservation and we are going to do this." It seems to me that we are going contrary to our great professions of faith in the necessity of the "have" nations sharing the resources of the world with the developing nations.

In my own view—and I think I have read pretty well everything that has been put forward in defence of the Canadian position; some excellent work by Mr. Beesley, for example—it all comes back to this, that we are saying, "We are going to grab this." You say, "We are going to control fishing; we are going to control exploration of the resources of the seas out to 200 miles." Surely this is an extension of this land mass resource advantage, which does not seem to me to make any sense, in view of our professions about our concern for the redistribution of the resources of the world with the developing nations.

Hon. Mr. Sharp: May I just offer two brief comments on this, Mr. Chairman? First of all, we have been very strong supporters of the idea that the resources beyond the shelf, or whatever is defined, should be for the common use of mankind, and we have generally supported the idea that they should be used to help the underdeveloped countries

of the world. This has been part of the approach of the Canadian government.

The second comment—which you may think is a bit unfair, Mr. Chairman or Senator Grosart—is that if we were to take that attitude towards the salmon, there would be no salmon to exploit, available to anybody.

Senator Grosart: That is quite true, but we would have to go to 600 miles to protect the salmon.

Hon. Mr. Sharp: We have taken an even more, shall I say, nationalistic view about salmon than we have about fish generally. We have said that this fish should never be fished except at the mouths of the rivers, and that means close to us, close to our shores or the American shores. That is why we have been trying to get an agreement that the salmon should not be fished out off the south shore of Greenland or wherever it is that they feed, because if they fish there there will not be any spawning.

If you look at the problem from that point of view, conservation does become extremely important, even though it looks very nationalistic. It may be that what we are trying to do is to protect a source of income to ourselves; but we are also trying to protect a source of food for mankind, which is going to disappear unless we do find some way of reducing the fishing in the oceans. It is not going to help the underdeveloped countries of the world if the oceans are over-fished or if the waters off Canada are over-fished.

Senator Grosart: I agree with that, in principle, Mr. Minister, but it seems to me that your description of the second part completely supports my argument, because in the same way we are only going to fish when they have got to the mouths of our rivers. Surely, there are other ways of conserving, let us say, the fish resources, to speak of only one, than this extension of the 100- or 200-mile limit? There are lots of other ways.

Hon. Mr. Sharp: So far we have not found any effective way of getting international agreement on fishing. Whales are a case in point; herring another. Where these resources have been over-fished, the result is a potential reduction in the total amount of food in the world.

In the world that is emerging, food may be the crucial problem, not energy. Indeed, as I have said a number of times recently, the world stocks of grain are so low that if by chance there is a poor crop in this coming year people are going to starve to death. It does not matter where the food is, it is going to be for the use of mankind.

Senator Grosart: I am not a fishery expert, but I would rather doubt if there is a single case where the extension of national control to 200 miles will preserve a single fish resource in the world, because most of the problems are out beyond the 200 miles.

Senator van Roggen: Coming from a fishing province, I would say that is not right.

Senator Grosart: It is.

Senator van Roggen: No, the bottom fish are in on the shelf.

Senator Connolly: This discussion about the 200-mile limit has been interesting, but it only indirectly affects Canada's relations with the United States. I would like to come back to a question that I had originally intended. I

am sorry that you saw Senator Carter first, because all of the premises he laid down are premises for my question.

He talked, first of all, about the "Connally"—not mine—"irritant" of 1970-71, which was related of course to the imbalance of payments the United States was faced with. As far as Canada was concerned, the threat seemed to be to the continued functioning of the auto pact.

I also premise the question upon another item that Senator Carter mentioned, namely, the energy crisis, and the fact that very shortly after we imposed an export charge we began to be called "blue eyed Arabs." Senator Carter said quite rightly that even today the president of some American oil company talked about a Canadian rip-off, which was in the news today.

I do not approach this from the point of view of Senator Carter. I approach it rather from this point of view, that it seems to me that lately, when issues arise as between Canada and the United States, there is more of a crisis atmosphere that seems to be generated. I have always felt, and I think a great many people have felt, that if we are not going to be understood by the Americans and they by us, there is very little likelihood of international understanding, because so many of the ways we think and believe and act are so similar. Regarding the co-operation we have had between the two countries, for example, in a time of real crisis during the war, there was never I think anything comparable to the criticism back and forth across the border that we find today.

So, really, my question is directed to the issue of the crisis element that seems to be developing in the relationships between the two countries. Do you look for that to continue? Do you think that this is a serious development that might ultimately disaffect our relationships, perhaps to the mutual disadvantage of both countries?

Hon. Mr. Sharp: Mr. Chairman, my answer is in the negative to that question. I do not expect, however, that our relationships are going to be smooth, because I do not expect that Canadian and American policies are always going to agree, either internationally or on bilateral issues.

It was my distinguished predecessor, Mr. Pearson, who quite a long time ago said that the era of easy relationships was a thing of the past. That statement was made at least 15 years ago.

What is notable about the periods when there seemed to be increased tensions was when the United States was in serious difficulties. The comments of Secretary Connally, to which Canadians took such exception, were made when the United States was facing a major crisis in its balance of payments which had continued over many, many years. Notwithstanding the efforts that the United States government had made in various ways to rectify the situation, it continued to deteriorate. Indeed, its balance of payments continued to deteriorate almost up to the time of the emergence of the recent energy crisis. It had begun to improve somewhat, but that improvement did not pre-date the energy crisis by many months.

Secretary Connally complained about the automobile agreement because he claimed this was contributing to the balance of payment deficits of the United States. He complained about our arrangements on tourist exemptions, for the same reason; and on the imbalance in the defence production agreement, for the same reason.

As I said in my opening comments, these are now looked upon as rather minor irritants in the situation, because the problem facing the United States now is not the same as it was then. The balance of payments of the United States is very much better than it was. What we are going to face, it seems to me, are problems of a different kind, related perhaps to energy, where the United States energy requirements are rising rapidly, where they are going to continue to be very dependent upon imports, where we will look relatively comfortable in these respects, as we do today.

Senator Connolly: And, in fact—if I may interject and perhaps ask you to comment—the supply of our energy requirements, particularly oil, is bound in time to decrease our shipments to the United States.

Hon. Mr. Sharp: Yes. As an illustration, during the tenure of Secretary Connally, when the United States was concerned about these balance of payments problems and was beginning to look at what might happen if there was to be a shortage of energy, their concern was whether they were going to be asked by Canada to offset a deficiency in eastern Canada in the event of a shortage of oil. They recommended to us at that time that we should complete the pipe line across to Montreal so as to reduce our potential dependency upon the United States for oil to offset our deficiency in this area.

But when the energy crisis emerged as it did and it became clear that our known supplies of oil might be more limited than at one time seemed likely, the prospect of building the pipe line faced the United States with the very real possibility that our shipments of oil into the Midwest would decline because we were supplying our requirements in eastern Canada.

So this is an illustration of how the tensions can change in character. I see no reason to think that there will not be periodic tensions. I do find myself, however, Mr. Chairman, somewhat in disagreement with Senator Connolly in the suggestion that relations between Canada and the United States are, shall I say, worse than they have been at any time in the past.

Senator Connolly: I do not really say that at all. What I say is that, when there is a disagreement, the immediate tendency is for the public opinion moulders to say that we have a great crisis. I am wondering whether the propagation of the concept, or idea that there is a crisis between the two is going to disaffect the relationship or perhaps undermine the kind of co-operation that has existed.

Hon. Mr. Sharp: I do not think this is something only to be found in relations between Canada and the United States. There is a tendency in the media to create crises over many issues. Quite recently, for example—in fact only in the last day or so, one heard the newspapermen say, "Oh, there was no crisis; it was all solved." Apparently the oil price problem was all solved quite effortlessly, although I do not think it was. However, they said, "Where was this crisis that everybody was talking about?" Well, who was talking about the crisis? It was the newspapers which created an atmosphere of crisis. Incidentally, it was most satisfactory to be able to solve it.

The Chairman: If Senator Connolly will permit me to ask a supplementary question, perhaps prefaced by a remark, Mr. Minister, from my own experience in dealing with officials in the United States I would suggest to you that perhaps too much emphasis is put on the word "consult".

I think that the word today gets to be "advised," and I think that some of the shortfalls which Senator Carter and Senator Connolly are both talking about lie in the advice area. I often think it is perhaps far too much to expect nations today to consult about the wide range of problems that come before them, either bilaterally or multilaterally, and I would put it to you—and I would be interested in your comment—that I think it is in the area of advice that the shortfall lies.

Hon. Mr. Sharp: I think there is a good deal to be said for that, Mr. Chairman, and it arises out of the rapidity of change in our society and in technological developments.

There are many instances of that nowadays. For example, we have seen it most vividly recently in relations between the United States and Europe, where a good deal of the difficulty seems to have arisen out of the process of consultation or of advising; where the Europeans criticized the United States for not having kept the Europeans well informed on the development of American policy in relation to the Soviet Union, and, on the other side, the complaint of Dr. Kissinger that the Europeans made up their minds on an issue and confronted the Americans with the result and were reluctant to re-open decisions which it had taken them a long time to arrive at in the process of consultation among the Nine. It is a problem that faces all countries and, particularly, foreign ministers.

Senator Grosart: Mr. Chairman, I was particularly interested in your comment on the difference between "advice" and "consultation," as this was one of the questions I had intended to ask. Of course, I would have to ask you do you mean "advice" or "advise"? There is a tremendous difference. Are you merely advising them that "this is what we are going to do"—which is the old story or complaint of the provinces in federal-provincial relations that the federal government says, "This is what we are going to do. Take it or leave it!" This, I suppose, is "advise".

The Chairman: Yes, sir.

Senator Grosart: But if you have "advice," you must seek advice; so therefore you have consultation, obviously.

The Chairman: But you have to do something about advice, Senator Grosart. You don't have to do anything when you have been advised.

Senator Grosart: Well, yes. Advice, of course, is a two-way street, but it is a matter of semantics and I won't push it any further than to say that the minister mentioned that this whole area is one of the main problems confronting U.S.-European relations, which, as I think I said the other day, some people have said if it is not solved may jeopardize the democratic governments of Western Europe. And there are references to this throughout the minister's statement.

I would ask the minister what exactly our policy is in respect to, whatever you call it, advising, giving advice to, or consulting with, the United States. Do we say that there are certain matters in which we will consult them in advance, or advise them in advance, and that there are other matters that are not that important? And do we have any kind of mutual understanding that we will fill each other in before we move into certain policies? To make it specific, did we consult with our American

friends before we decided to recognize mainland China? What happened there?

Hon. Mr. Sharp: That is the case I was going to base my reply upon.

When the government decided to have as an objective the recognition of Peking, although it was announced as a general objective, in advance of advising the United States that this was our general objective, as soon as it had been announced we kept the United States informed about the general course of our negotiations. The United States' attitude toward that announcement, or that advice that we gave them, was that that was a matter for us to decide, and they thanked us for letting them know what we were doing.

At that particular point, Secretary Rogers asked me, "What are you going to do about the United Nations?"

Senator Grosart: Yes.

Hon. Mr. Sharp: To which I replied that if we were successful in our negotiations, and we replaced Peking as the representative of China rather than Taiwan, then of course we would follow that by recognizing that the representative of the People's Republic of China should sit in the seat in the United Nations instead of the representative of the Republic of China. He pointed out to me that we had, over the years, taken the view that that was "an important question." His next query to me—

Senator Grosart: Did he point out the assurances we had given to Taiwan that we would not take that attitude?

Hon. Mr. Sharp: No. I do not remember him saying that to me. Whether it was true or not, I do not really know. In any event, he did not say that. He said, "You have always joined with us in saying that this is an important question." And I said, "Well, we might have to change our attitude towards that," which, as you will recognize, caused him considerable distress because the United States, you may recall, resisted very strongly the seating of the People's Republic of China in the China seat.

We also kept them generally informed about the way our negotiations were going. We did not seek their advice—and here I accept the distinction between "advice" and "advise". We kept them informed. We did not ask them for their approval, but we felt, in the interests of good relations between our two countries, that this was an issue about which they were very sensitive, and that they should understand what we were doing so that there would be no cause for misunderstanding.

As you know, the United States itself subsequently changed its attitude toward China. Mr. Nixon went there and visited Mao Tse-tung, who is the President of the People's Republic.

Senator Grosart: Without advising Japan.

Hon. Mr. Sharp: Yes. Well, it is another symptom of this changing international environment that even though the presidents of these two countries met, they still do not recognize one another, formally, in diplomatic language.

Senator Grosart: Mr. Chairman, I know we will be coming to a more detailed examination of the institutions and arrangements for this "advice/advise" consultation process, but I wonder if the minister could give us just a brief outline of the levels at which this process takes place.

You say, "We advise." Who is "we," and at what levels does it happen, and how is it done?

Hon. Mr. Sharp: We use mainly what I have referred to as "the classical method," that is, the embassy. Our ambassador is instructed to inform the Secretary of State of the United States on various developments in our policy that we would like the United States to know about. He might do that by a personal interview, if he could see the Secretary of State; but, if not, he would see one of the other officials in the Department of State. On certain questions of a specialized character the contact might be between the Canadian minister and his counterpart in the United States.

Let me give an illustration. When Canada was trying to make up its mind as to whether to withdraw from the International Control Commission in Vietnam I had a number of conversations with the Secretary of State, both on the telephone and in Washington—

Senator Grosart: You have a "semi-hot line," or a "luke-warm line."

Hon. Mr. Sharp: I do not use that one. I just use the ordinary telephone. When we had decided that we were going to withdraw, we advised the Secretary of State, through the embassy, that we had made that decision, and I received a telephone call from Dr. Kissinger, who was then in the White House, and not the Secretary of State, asking if we would delay this announcement for a period, to permit him to conclude his negotiations in Paris with Le Duc Tho. I informed him that, no, we had made up our minds to make our decision this week, which was the week of the announcement, but that if it would assist him in his negotiations, we would delay our withdrawal from Vietnam by thirty days. He said, "I would like you to do that." So we did it, in order to accommodate a friend and because we did not want in any way to be responsible for the breakdown of those peace talks. That is an example of how this kind of advice and consultation is carried on.

My colleague, the Minister of Finance, kept very closely in touch with Secretary Shultz from time to time on some of the main issues facing the international financial world, and kept him advised as to Canadian attitudes, and asked him as to American attitudes. On agricultural matters, I know my colleague Mr. Whelan is from time to time in touch with his counterpart in the United States on some of these issues that have been in the news recently.

Senator Grosart: Then is there a lower level of contacts, as I understand there is, sometimes called the administrative or departmental or public servant level? How are they integrated with these higher level consultations or contacts?

Hon. Mr. Sharp: Well, they are done only with the authority of the minister of the department. I am sure my colleague, Mr. Turner, asks his deputy minister, or one of the assistant deputy ministers, to get in touch with his counterpart, or somebody at about his level, to exchange views, and these are reported to the minister.

My Under-Secretary, Mr. Ritchie, does not do this very frequently, because we have in Washington an ambassador who is under the authority of the Under-Secretary, and he can use the ambassador to do this kind of thing, which is not, of course, open to other departments where they have some specialized question that they would like to talk about. But, of course, the ambassador does often

act on behalf of other departments than that of the Secretary of State for External Affairs.

Senator Connolly: Senator Grosart, may I ask one supplementary question?

Senator Grosart: Well, may I ask one first, Senator Connolly, because it follows right on from this.

To give a quantitative value to this, would you say in general that the totality of these contacts in a year would be in the scores, the hundreds or thousands?

Hon. Mr. Sharp: At least hundreds. It might be in the thousands, but it certainly is in the hundreds.

Senator Connolly: I have a supplementary question on the point where you speak about the duties of an ambassador. In an embassy—and I suppose this applies to many embassies—there are a number of specialized officials: there is a defence man, a trade man, perhaps an energy man, a food and agriculture man. Would you mind saying something about what these people do in the matter of relationships between the two countries?

Hon. Mr. Sharp: The members of the embassy staff engage themselves in two general types of activities: one is to gather information by contacts with the members of the administration in their specialized fields; and also to pass along information about Canadian developments that they think would be useful for the American government to know.

We have in Washington a number of specialists: we have some on trade, some on finance; and we have had an energy man in Washington for many, many years and, of course, we have had agricultural specialists. They spend the whole of their time gathering or supplying information, sometimes in response to questions from American officials and sometimes the information is offered so as to keep as general an understanding as possible. There is also an effort made in the embassy to convey information other than to the government itself. We have, of course, information officers who spend all their time supplying information about Canada to the media, to senators, to representatives, to their staffs and so on. To some extent also the ambassador and his staff have contacts with members of the Congress, whether senators or representatives.

One has to be careful, however, that one does not create the impression that the embassy is engaged in trying to circumvent the administration. Here in Canada, for example, if members of foreign embassies were to try to convert members of Parliament or senators to their point of view in a conflict or a difference of opinion between the government of that country and the Government of Canada, we would take the strongest exception. We would say to those representatives that they must not engage in trying to deal with the legislature rather than with the administration. They are accredited to the Government of Canada and they should deal with the Government of Canada. That does not mean that if a member of Parliament wanted to get information that they should refuse to give it to him, but they would have to be circumspect in their dealings or they might make themselves not very acceptable to the government in dealings between their government and ours.

Senator Grosart: Should all senators and members of Parliament report any such incidents to you?

Senator Connolly: There was one member of Parliament, and I don't know if they ever put him in jail or not, but he certainly was convicted of dealing with foreign embassies here.

Senator Grosart: Then I take it you are not registering any lobbyists in Washington!

On the great question of diversification which seems to be the major theme of our present policy—and here I should say that I recognize that a former distinguished Prime Minister might have regretted trying to put a quantum percentage on a certain switch of trade at one time—perhaps it is not an unfair question to ask you if you really believe that there is any realistic hope of diversifying our trade, in other words changing the 70/70 per cent level.

Hon. Mr. Sharp: Well, you have put the question in a form that I think is somewhat unrealistic. There has been an enormous diversification in trade in recent years. Japan, for example, in the last 20 years—even more so in the last 30 years—but certainly in the last 20 to 25 years has been transformed from a relatively minor factor in Canadian trade to being now our second or third largest market. Europe—that is, excluding Britain—in other words, the Continent of Europe has become a much more important trading partner of Canada and so have China and the Soviet Union. However, if you are talking in terms of proportions of trade, then it is quite clear, as you say, that there has been very little change in the proportion of our trade that we do with the United States. It remains at between 65 and 70 per cent. And as far as I can see, in the near-term future it is likely to continue at about that level. However, we do have many more outlets now for particular goods outside of the United States than we had before. So our trade has become diversified in that sense. But it has not altered the proportions of our trade that we do with the United States, and there is very little chance that it will change in the near-term future.

Senator Grosart: So, would it be fair to say that in terms of Canada-United States trade relations further diversification is not an objective? That is to say that further diversification in that percentage level is really not an objective of our policy?

Hon. Mr. Sharp: What we are trying to do in a policy of diversification is to be sure that we are exploiting the possibilities for trade in all directions. It has almost become a cliché to say that we are unique among the countries of the world in the diversity of our relations because of our geographic location. We are an American nation, we are an Atlantic nation, we are a Pacific nation and we are an Arctic nation. It had been our feeling that in recent years we had not been taking advantage of this location to exploit our possibilities as fully as we should have across the Atlantic, across the Pacific, across the Arctic, and that this was increasing our vulnerability to events in the United States. It was not directed against the United States, but it was directed in favour of diversifying, as far as the possibilities existed, and we have accomplished a good deal in this direction. It remains true, however, that the best and the richest market for our goods, and particularly for manufactured goods, is the United States market.

Senator Grosart: Then would you agree, sir, that in terms of Canada-United States trade relations it is not terribly important whether we switch the other 30 per cent from

Commonwealth countries to Japan, or South-East Asian countries? In terms of Canada-United States relations, as long as we are going to stay at that 70 per cent, it is not really a very important policy in that particular context.

Hon. Mr. Sharp: Shall I put it this way; I do not think that our efforts to diversify should cause any concern in the United States.

Senator Grosart: At page 5 of your statement, Mr. Minister, you seem to indicate that Canada and the United States are today placing less emphasis on continentalism in their policy. I am sure this is so as far as Canada is concerned. Have you indications that this is so as far as the American policy is concerned, that they are less continentalist in their objectives?

Hon. Mr. Sharp: I would hesitate to say so, senator.

Senator Grosart: You seem to indicate here that we are both going in the same direction.

Hon. Mr. Sharp: No. The United States policy is perhaps characterized by something that leads in the same direction. The United States policy in the Nixon doctrine is to limit the responsibilities of the United States in world affairs to those responsibilities that they can discharge, and it is, as reflected in President Nixon's speech here to Parliament, directed to encouraging the independence of their friends and neighbours. It was not in favour of increasing the dependency of Canada upon the United States. In other words, the President said, "I understand and applaud your efforts to be independent." In that sense the United States is not, I think, determined to integrate Canada with the United States, so that I believe it is true to say that they do not have a continental policy in that sense.

On the other hand, if you ask me whether they would like to have access to as much as possible of Canadian resources, I think I would have to say that is part of their policy.

Senator Grosart: But no manifest destiny.

Hon. Mr. Sharp: No, I do not think so.

Senator Laird: Mr. Minister, I would like to ask you a couple of direct and practical questions. If you think they are unfair, I am sure you will tell me so. I say they are "practical", because they have to do with current problems which affect large sections of the Canadian public, and I am sure you will agree that to achieve eventual approval of a foreign policy you must take care of individual problems of individual Canadians.

In your green paper, "International Perspectives", page 15, I read this statement:

Experience with the Automotive Products Agreement suggests that, in any such sectoral arrangements, there may be difficulty in maintaining an equal voice with the United States over time.

That, of course, implies a degree of pessimism and, frankly, I wonder whether you share that pessimism to the extent that you think it will handicap arriving at a solution of the auto pact problem.

Hon. Mr. Sharp: The automobile agreement was one of the few "exclusive" arrangements that we had with any country. There were at the time some who advocated the extension of this principle into other fields. What I was

saying in that paper that you have quoted is that in any such exclusive arrangement Canada is not likely to be as influential as would be the United States, because of the difference in size and power. Indeed, this is the general argument against the second option. It is that if you get into an exclusive arrangement with the United States you get into an exclusive arrangement with a country of much greater size and much greater power, and that in such an arrangement the tendency would be for Canada to want to be represented at the centre of power in the United States, rather than simply to try to exercise its influence as a separate country.

That is why the implication of the third option is against the extension of arrangements such as the automobile agreement into other fields. It is not that the automobile agreement in itself did not work out well. The agreement did work well from our point of view, but it does expose us to the overwhelming influence of the United States. Indeed, in that agreement, as you know, many safeguards were put in for the very purpose of preventing developments occurring that would be detrimental to Canada because of decisions being made in the United States which would be contrary to the interests of this country.

Senator Laird: Do you feel, then, that we are in such disadvantageous position now that we have no reasonable hope of maintaining the status quo in the auto pact?

Hon. Mr. Sharp: No, we have not in that agreement withdrawn all the safeguards. This is the essence of the discussions that are going on now between the two countries, and I can assure you that the Canadian government is very much aware of the dangers, as well as the possibilities of trade in automobiles.

As things developed we did very well. We think that agreement was mutually advantageous. It was certainly advantageous to us, but also to the United States, and it restored a proper balance in trade in automobiles and automobile parts. However, we still see dangers that if there were no safeguards, or no arrangements for keeping that trade in balance, it could become unbalanced.

Senator Laird: Is it likely to do so?

Hon. Mr. Sharp: I do not think so. I think the way it has worked out, there have been good reasons for the investments in Canada to be made. The outcome has been in the interests of the automobile manufacturers to have efficient operations in Canada. There has been an enormous increase in the volume of trade and even though the balance is not quite as favourable to us now as it was, nevertheless it remains very much in Canada's interest to continue that agreement.

Senator Laird: Just one other quick question in connection with the matter of the Great Lakes pollution. It is very disturbing to many, many Canadians and it hits them rather directly. This is why it becomes so important to solve it. Has it not been due to the failure of President Nixon to agree to the allotment of sums that the problem has not proceeded more quickly to a solution?

Hon. Mr. Sharp: I think it is premature to say that. We are reviewing the agreement. We do not think the United States has failed to live up to the agreement. We would like to have seen greater progress in the control of pollution coming into the Great Lakes from the United States, but things are improving.

I suppose in all great enterprises of this kind we sometimes fall a little short of what it is that we are striving for, but I would not say that the United States has broken that agreement.

Senator Laird: Then you are still optimistic of an eventual solution?

Hon. Mr. Sharp: Yes. Progress is being made—not as rapid as we should like to see, and I do not think the Americans have made as great progress on their side of the border as we have made on ours.

Senator Laird: Have we made any progress on air pollution, which affects us in Windsor very badly? There is all kinds of pollution from Detroit.

Hon. Mr. Sharp: Yes. I have forgotten where it stands now. I am wondering whether one of my officials is an expert on this. Are you, Mr. MacLellan?

Mr. K. W. MacLellan, Director, U.S.A. Division, Department of External Affairs: I am not very expert, sir, but there is an arrangement being made, I understand, to reduce the sulphur content of the firing of the boilers at the American generating plant which will reduce the amount, depending on which way the wind blows, of pollution towards Windsor. But Ontario feels that it has this matter very much in hand and that it is Ontario's regulations that really ought to apply. We have consultations coming up quite shortly with the Americans on this question.

Senator Laird: It has not worked very well yet. If you were in Windsor, you would know.

Senator Grosart: In discussing this second option in the "International Perspectives" paper, the minister said—I take it the minister said it:

We might seek, for example, to adapt to other industries the approach reflected in the Automotive Products Agreement. The chemical industry is one such industry that could lend itself to rationalization on a North-South basis. The aerospace industry might well be another. We might also endeavour to negotiate a continental arrangement with the United States covering energy resources.

And so on. That was in discussing the second option.

Do we take it that it is now general policy not to pursue this type of limited integration?

Hon. Mr. Sharp: It seems to us that to pursue exclusive arrangements of that kind would not promote the objective of as much independence as we can manage. Nor do we believe that it is necessary to the achievement of our objectives in improving the standard of living in Canada.

Senator McNamara: Mr. Chairman, I realize it is getting late. When this idea was first broached, I welcomed it. It seemed to me that we on the committee might be able to do something to materially assist our government in American-Canadian relations with the ultimate object of trying to improve those relations and being helpful in our own sphere of influence.

The minister, in his remarks, mentioned three points which intrigued me. He said that one of the things that we as Canadians could do was to consult with and inform the Americans. He mentioned the tension existing between the EEC and the United States of America, and concluded by commenting on how Canada-United States relations should be managed.

This brings me to something about which I have not been clear—namely, how we as a group of parliamentarians can assist without interfering with normal diplomatic relations in trying to solve problems which are of great magnitude, such as the Law of the Sea, the auto pact, and so on.

I am wondering whether there is some way whereby we can start off on a somewhat lower level by making contacts which might eventually be expanded into a broader field.

The minister mentioned also that it is possible that a food crisis might develop into a crisis which might be as serious, if not more so, than the energy crisis through which we have just passed.

It seems to me that even without a crisis there is mutual interest between Canada and the United States as major exporters of food grains, and we could start exploring what steps to take should certain contingencies arise.

I should like to ask the minister how we can function, or be more helpful to his department, and what should be our approach. My own thought is that if we could turn to something like the commodity agreement in the event of a food crisis developing, we could co-operate with the United States and European countries by providing leadership, or work together on a project that might be of mutual benefit to both countries, thereby helping in a small way to solve some of the larger questions which have been introduced today.

Could the minister give us some idea how he feels this committee could most effectively move forward in the study of these relations?

Hon. Mr. Sharp: Mr. Chairman, perhaps I should not compliment the Senate—it is not very popular in the Commons—

An hon. Senator: It is mutual!

Hon. Mr. Sharp: But I do want to congratulate this committee on the work it has done in the past. I think it has been very useful to have had reports of the kind it has produced on European questions, the Caribbean, the Pacific Rim, and so on. There is not sufficient of this kind of work done in Canada. We do not have centres in many places where solid work can be done.

Even though the Senate committee has not always been complimentary to the Canadian government—it has pointed out deficiencies—that has not caused me or the government any concern. We have been gratified that someone is paying attention.

So I would think Mr. Chairman, in answer to Senator McNamara, that if the committee wants to concentrate its work, it might do so in the field of dissemination of information and in the study of the mechanisms that are available for the education of Americans and Canadians on relations between our two great countries.

We take a good deal of this for granted. We have developed mechanisms, but no one has taken time to sit down and look at them to see how they are functioning, how they look to an outsider, or make suggestions for improvement of the machinery.

My one word of warning to you would be not to spread your net too widely. If you think you are going to bring out a report on Canadian-American relations that is going to be very influential over the whole range of issues, then

you are trying to do too much. It would be better for you to limit the scope of your study to something that can be managed within a reasonable space of time.

If I might illustrate that point. When we were producing our first "Foreign Policy for Canadians" study, it was remarked that there was no separate study on the United States. I was criticized, I am sure in the Senate as well as elsewhere, for having produced Hamlet without the Prince of Denmark. I did point out, however, that throughout the whole of the "Foreign Policy for Canadians" study was an underlying thread which permeated everything, namely our relations with our great neighbour to the south. On one occasion at a meeting with some academics, who took me apart on the fact that I did not produce a separate report on Canadian-American relations, I pointed out that the Canadian Institute of International Affairs, through the International Journal, had produced a review of, I believe, 25 years of Canadian foreign policy in which there was not a single chapter devoted to Canadian-American relations. The reason for that, of course, as I said, was that it is so all permeating that it is very difficult, without writing a book of many chapters, to deal with all aspects of Canadian-American relations. What was produced in "International Perspectives" was, in a sense, a narrowly based study of the general directions of Canadian-American relations. In order to keep the study within reasonable limits, we examined three options, three general directions. But that by no means constitutes a complete study of Canadian-American relations. I do not know how long a report would have to be in order to make it complete, but as soon as it was published it would be obsolete.

That is my only advice to the committee, Mr. Chairman. It is not "advising" but "advice." I do hope the committee can produce a report in this area. It would certainly be valuable to us and even more valuable, I think, to the public at large and to Parliament.

The Chairman: I am pleased that Senator McNamara asked that question. We are complimented by your reply, Mr. Minister. I think it is a very important question. I was interested in your reply in which you indicated your agreement that the bilateral machinery is an appropriate target for us in this first phase.

However, I think there was something a little deeper in Senator McNamara's mind, Mr. Minister, and I think it probably comes from his background. When he talks about food, he really knows what he is talking about. The idea we have had in the committee—and we have not discussed it in any great detail—is that we might go to subcommittees on a project of that nature, which would certainly have my support.

Hon. Mr. Sharp: As it would mine. I am as anxious about the food situation as I know Senator McNamara is. We have had a common background in this respect. I am alarmed about the possibility of the world not facing up to the nature of the problem. I am sure Senator McNamara would agree with me when I say the food problem of the world is not going to be solved in Canada or the United States, but rather in such places as India, China and other areas of the world where the possibilities for improvement of production are much greater than they are on this continent.

Senator Yuzyk: Mr. Minister, my question relates to the multi-lateral relations in our dealings with a third power, particularly with the People's Republic of China. You

have already partially answered my question, but I should like to follow through on it because we still have dealings with China and with the United States.

As I understand what you have said, when Canada was in the process of establishing diplomatic relations with the People's Republic of China we did not inform the United States about it. However, you did not say whether or not there was any consultation. Sometime after we started the process of establishing diplomatic relations with China, President Nixon visited that country. I am wondering whether there was any consultation with Canada in respect of that visit, or were we just informed about it?

Hon. Mr. Sharp: Not even that.

Senator Grosart: We read it in the papers.

Hon. Mr. Sharp: The visit of President Nixon to China was not something that was publicized. As far as I know, no one was informed in advance of that visit. As I recall, Dr. Kissinger went first. He was thought to have been off on a weekend holiday some place, but he was in China. The United States did not inform us about that. We were not particularly aggrieved. Other countries felt that they should have been informed, but we did not feel that it was of sufficient importance to us. By that time, of course, we had been moving ahead in our own efforts. It did not in any way cross our policies. It did produce some embarrassment for the Japanese who, apparently, had no forewarning of that change in American policy.

Senator Yuzyk: It did not embarrass us in our relations with the United States?

Hon. Mr. Sharp: No; as a matter of fact, it made me seem respectable.

Senator Yuzyk: We are looking at the United States from the point of view of Canada. Could you inform us, in a general way, as to the attitude of the Government of the United States with respect to our dealings with other powers? Are we, for example, at any time on a consultative basis?

Hon. Mr. Sharp: Have you any particular point in mind, senator?

Senator Yuzyk: Well, I would not accuse the United States of not having goodwill towards Canada. I think it

applies both ways: we have reasonable goodwill between our two countries. However, such matters as the recognition of the People's Republic of China do affect our relations in the United Nations, and on such occasions it can look as though we are at great loggerheads with the United States. Some would like to say that our alliance is weakening as a result of such problems.

From your experience with the Americans, would you say that we are on some kind of consultative basis with them, or does it have to be established every time? Do we have to force such a thing, so to speak? Do they ask for consultation at times?

Hon. Mr. Sharp: I do not think that the United States would naturally consult with us about a major change in American policy, no. On the other hand, I think that the consultation between Canada and the United States, generally speaking, is more regular than between the United States and any other country, principally because of the number of contacts that exist. It may be, for example, that Dr. Kissinger has visited the Soviet Union more often than he has visited Canada. He has certainly visited the Middle East many more times than he has visited Canada. On the other hand, the extent of the consultation between Canada and the United States is far greater, in general, than the consultations between Dr. Kissinger and any Arab country or Israel, or the Soviet Union or Europe, just in the very nature of things. As I said in my opening statement, the consultation between us is so thorough and widespread and continuous. However, it does not mean that the United States informs us in advance of major shifts in their foreign policy; we would not claim that.

Senator Yuzyk: Thank you.

The Chairman: Mr. Minister, we have been sitting for two hours and fifteen minutes. Thank you very much, sir. I think the committee is also very grateful for the turnout of the first team.

Mr. A. E. Ritchie, Under-secretary of State for External Affairs: The second team!

The Chairman: Or is it the second team? It is very kind of you to bring them, sir, and on behalf of everyone I thank you very much.

The committee adjourned.

APPENDIX "A"STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
STUDY ON CANADA-UNITED STATES RELATIONSANNEX I

List of Treaties and Agreements entered

between

Canada and the United States

in force February 1, 1974

March 28, 1974

AERONAUTICAL RESEARCH

Agreement concerning a cooperative project to design, develop and test an aircraft embodying the "Augmentor Wing System", with annex.
Exchange of notes at Ottawa October 19 and November 10, 1970;
entered into force November 10, 1970.

AMITY

Treaty of amity, commerce and navigation between the United States and Great Britain (Jay Treaty).¹
Signed at London November 19, 1794;
entered into force October 28, 1795.

Explanatory article to article 3 of the November 19, 1794 treaty of amity, commerce and navigation between the United States and Great Britain.¹
Signed at Philadelphia May 4, 1796;
entered into force October 6, 1796.

Treaty of peace and amity between the United States and Great Britain.
Signed at Ghent December 24, 1814; entered into force February 17, 1815.

Treaty for an amicable settlement of all causes of differences between the United States and Great Britain (Treaty of Washington).²
Signed at Washington May 8, 1871; entered into force June 17, 1871.

ATOMIC ENERGY

Agreement for cooperation on civil uses of atomic energy.
Signed at Washington June 15, 1955;
entered into force July 21, 1955.

Extension and amendments:
June 26, 1956

May 22, 1959

June 11, 1960

May 25, 1962

Agreement for cooperation regarding atomic information for mutual defense purposes.
Signed at Washington June 15, 1955;
entered into force July 22, 1955.

Amendment:
May 22, 1959

Agreement for cooperation on uses of atomic energy for mutual defense purposes.
Signed at Washington May 22, 1959;
entered into force July 27, 1959.

Agreement relating to the application of safeguards on small quantities of natural uranium transferred from Canada to the United States.
Exchange of notes at Washington January 28 and 30, 1969; entered into force January 30, 1969.

AVIATION

Agreement relating to air navigation.
Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Arrangement relating to the issuance of certificates of competency or licenses for the piloting of civil aircraft.
Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Arrangement relating to certificates of airworthiness for export.
Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Amendment:
August 12, 1970 and February 18, 1971

Agreement relating to cooperation between the United States and Canada in air search and rescue operations along the common boundary.
Exchange of notes at Washington January 24 and 31, 1949; entered into force January 31, 1949.

Agreement relating to the use by civil aircraft of Stephenville and Argentia military air bases in Newfoundland.
Exchange of notes at Ottawa June 4, 1949;
entered into force June 4, 1949.

Agreement concerning air traffic control.
Exchange of notes at Ottawa December 20 and 27, 1963; entered into force December 27, 1963.

¹Only art. 3 so far as it relates to the right of Indians to pass across the border, and arts. 9 and 10 appear to remain in force.

²Arts. I-XVII and XXXIV - XLII have been executed; arts. XVIII - XXV, XXX, and XXXII terminated July 1, 1885; arts. XXVIII and XXIX not considered in force.

Air transport agreement with exchanges of notes.
Signed at Ottawa January 17, 1966; entered into force January 17, 1966.

BOUNDARIES (See also AMITY)

Convention respecting fisheries, boundary, and the restoration of slaves.
Signed at London October 20, 1818;
entered into force January 30, 1819.

Treaty to settle and define the boundaries between the territories of the United States and the possessions of Her Britannic Majesty in North America; for the final suppression of the African slave trade, and for the giving up of criminals, fugitive from justice, in certain cases (Webster-Ashburton Treaty).^{*}
Signed at Washington August 9, 1842;
entered into force October 13, 1842.

Treaty establishing the boundary in the territory on the northwest coast of America lying westward of the Rocky Mountains (Oregon Treaty).
Signed at Washington June 15, 1846;
entered into force July 17, 1846.

Declaration adopting maps of boundary prepared by the Joint Commission of the Northwest Boundary for surveying and marking the boundaries between the United States and British possessions on the forty-ninth parallel of north latitude, under the first article of the treaty of June 15, 1846 between the United States and the United Kingdom.
Signed at Washington February 24, 1870;
entered into force February 24, 1870.

Protocol of a conference respecting the northwest water boundary.
Signed at Washington March 10, 1873;
entered into force March 10, 1873.

Convention providing for the settlement of questions between the United States and the United Kingdom with respect to the boundary line between the territory of Alaska and the British possessions in North America.¹
Signed at Washington January 24, 1903;
entered into force March 3, 1903.

Acceptance of the report of the commissioners to complete the award under the convention of January 24, 1903 respecting the boundary line between Alaska and the British North American possessions.
Exchange of notes at Washington March 25, 1905; entered into force March 25, 1905.

^{*}Art. 10 supplemented by convention of July 12, 1889 (See under CANADA, Extradition).

¹Obsolete except for first paragraph of art. VI.

Convention providing for the surveying and marking out upon the ground of the 141st degree of west longitude where said meridian forms the boundary line between Alaska and the British possessions in North America.²
Signed at Washington April 21, 1906;
entered into force August 16, 1906.

Treaty concerning the Canadian international boundary.
Signed at Washington April 11, 1908;
entered into force June 4, 1908.

Treaty relating to boundary waters and questions arising along the boundary between the United States and Canada.³
Signed at Washington January 11, 1909;
entered into force May 5, 1910.

Treaty concerning the boundary line in Passamaquoddy Bay.
Signed at Washington May 21, 1910;
entered into force August 2nd 1910.

Treaty in regard to the boundary between the United States and Canada.
Signed at Washington February 24, 1925;
entered into force July 17, 1925.

BOUNDARY WATERS (See also AMITY, BOUNDARIES, and MARITIME MATTERS)
Convention to regulate the level of the Lake of the Woods, with an accompanying protocol and an agreement.
Signed at Washington February 24, 1925;
entered into force July 17, 1925.

Arrangement relating to the level of Lake Memphremagog.
Exchange of notes at Ottawa September 20 and November 6, 1935; entered into force November 6, 1935.

Convention providing for emergency regulation of the level of Rainy Lake and of certain other boundary waters.
Signed at Ottawa September 15, 1938;
entered into force October 3, 1940.

Arrangement relating to the early development of certain portions of the Great Lakes-St. Lawrence Basin project (Long Lac-Ogoki Works).
Exchange of notes at Washington October 14 and 31 and November 7, 1940;
entered into force November 7, 1940.

²Obsolete except for art. II.

³Paragraphs 3, 4, and 5 of art. V terminated October 10, 1950 upon the entry into force of the treaty relating to uses of waters of the Niagara River, signed February 27, 1950.

Agreement relating to the St. Lawrence seaway project for the construction of certain navigation facilities.
Exchange of notes at Washington June 30, 1952; entered into force June 30, 1952.

Agreement establishing the St. Lawrence River Joint Board of Engineers.
Exchange of notes at Washington November 12, 1953; entered into force November 12, 1953.

Agreement relating to the St. Lawrence seaway project for the construction of certain navigation facilities.
Exchange of notes at Ottawa August 17, 1954; entered into force August 17, 1954.

Agreement regarding the relocation of that part of Roosevelt Bridge which crosses the Cornwall south channel of the St. Lawrence River.
Exchange of notes at Washington October 24, 1956; entered into force October 24, 1956.

Agreement relating to the dredging of the north channel of Cornwall Island.
Exchange of notes at Ottawa November 7 and December 4, 1956; entered into force December 4, 1956.

Agreement relating to certain navigation improvements in Canadian waters of the Detroit River section of the Great Lakes connecting channel.
Exchange of notes at Ottawa July 23 and October 26, 1956, and February 26, 1957; entered into force October 26, 1956.

Agreement relating to navigation improvements in waters of the St. Mary's River and the St. Clair River sections of the Great Lakes connecting channels.
Exchange of notes at Ottawa November 30, 1956, and April 8 and 9, 1957; entered into force April 9, 1957.

Agreement for construction and dredging of a new cut-off channel in the St. Clair River section of Great Lakes connecting channels under art. III of the treaty of January 11, 1909.
Exchange of notes at Ottawa May 19, 1955 and February 27, 1959; entered into force February 27, 1959.

Agreement governing tolls on the St. Lawrence Seaway.
Exchange of notes at Ottawa March 9, 1959; entered into force March 9, 1959.

Amendments:
July 3 and 13, 1962

June 30, 1964

March 31, 1967

July 27, 1972

Agreement relating to the dredging of Wolfe Island Cut in the St. Lawrence River.
Exchange of notes at Ottawa October 17, 1961; entered into force October 17, 1961.

Agreement relating to channel improvement work in Pelee Passage area of Lake Erie.
Exchange of notes at Ottawa June 8, 1959 and October 17, 1961; entered into force October 17, 1961.

Agreement relating to the temporary raising of level of Lake St. Francis during low-water periods.
Exchange of notes at Washington November 10, 1941; entered into force November 10, 1941.

Extension:
August 31 and September 7, 1944

Agreement relating to the Upper Columbia River Basin.
Exchange of notes at Ottawa February 25 and March 3, 1944; entered into force March 3, 1944.

Treaty relating to uses of waters of the Niagara River.
Signed at Washington February 27, 1950; entered into force October 10, 1950;

Agreement relating to the payment of costs of remedial work at Niagara Falls pursuant to art. II of the treaty of February 27, 1950.
Exchange of notes at Ottawa September 13, 1954; entered into force September 13, 1954.

Treaty relating to cooperative development of the water resources of the Columbia River Basin.
Signed at Washington January 17, 1961; entered into force September 16, 1964, with related agreements effected by exchanges of notes at Washington January 22, 1964, and at Ottawa September 16, 1964.

Agreement implementing sec.(4) of Art. XV of the treaty of January 17, 1961 relating to cooperative development of the water resources of the Columbia River Basin.
Exchange of notes at Washington October 4, 1965; entered into force October 4, 1965.

Agreement governing the operation of pilotage on the Great Lakes and St. Lawrence Seaway with memorandum of arrangements.
Exchange of notes at Washington July 6, 1970; entered into force July 6, 1970; operative July 7, 1970.

Amendment:
August 11, 1970

Agreement between Canada and the U.S.A. on Great Lakes Water Quality
Signed at Ottawa April 15, 1972.
Entered into Force April 17, 1972.

Exchange of Notes between Canada and the U.S.A. amending the Agreement of March 9, 1959, concerning the Tariff of Tolls on the St. Lawrence Seaway (with Memorandum of Agreement)
Signed at Washington July 27, 1972
Entered into Force July 27, 1972.

Exchange of Notes between Canada and the U.S.A. regarding the Preservation of the Quality of Water in the International Section of the St. John River
Signed at Washington Sept 21, 1972
Entered into Force Sept 21, 1972

Exchange of Notes between Canada and the U.S.A. constituting an Agreement to Facilitate Joint Co-Operation in a Research Project entitled "The International Field Year for the Great Lakes"
Signed at Ottawa May 24 & June 7, 1973
Entered into Force June 7, 1973
(with effect from April 1, 1972)

CAMPOBELLO

Agreement relating to the establishment of the Roosevelt Campobello International Park.
Signed at Washington January 22, 1964;
entered into force August 14, 1964.

CLAIMS

Convention for the establishment of a tribunal to decide questions of indemnity arising from the operation of the smelter at Trail, British Columbia.
Signed at Ottawa April 15, 1935; entered into force August 3, 1935.

Agreement supplementary to the convention signed April 15, 1935 for the establishment of a tribunal to decide questions of indemnity and future regime arising from the operation of the smelter at Trail, British Columbia.
Exchange of notes at Washington November 17, 1949 and January 24, 1950;
entered into force January 24, 1950.

Agreement relating to claims arising out of traffic accidents involving vehicles of the armed forces of the United States and Canada.
Exchange of notes at Ottawa March 1 and 23, 1944; entered into force March 23, 1944.

Agreement relating to waiver of certain claims involving Government vessels.
Exchange of notes at Washington September 28 and November 13 and 15, 1946;
entered into force November 15, 1946.

Agreement relating to the settlement of certain war accounts and claims.
Exchange of notes at Washington March 14, 1949; entered into force March 14, 1949.

COLUMBIA RIVER (See BOUNDARY WATERS)

CONSULS

Convention to regulate commerce (art. IV) between the United States and the United Kingdom.
Signed at London July 3, 1815; effective July 3, 1815.

Arrangement relating to visits of consular officers to citizens of their own country serving sentences in penal institutions.
Exchange of notes at Ottawa July 29 and September 19, 1935; entered into force September 19, 1935.

COPYRIGHT (See APPENDIX)

CUSTOMS

Agreement relating to importation privileges for government officials and employees.
Exchanges of notes at Ottawa July 21, October 29, and November 9, 1942; entered into force November 9, 1942.

DEFENSE

Declaration by the Prime Minister of Canada and the President of the United States of America regarding the establishing of a Permanent Joint Board on Defense.
Made at Ogdensburg, New York, August 18, 1940.

Protocol concerning the defense of Newfoundland.
Signed at London March 27, 1941; entered into force March 27, 1941.

Hyde Park agreement. Announcement made at Hyde Park April 20, 1941 by the President of the United States of America and the Prime Minister of Canada.

Arrangement relating to visits in uniform by members of defense forces.
Exchange of notes at Ottawa August 28 and September 4, 1941; entered into force September 11, 1941.

Agreement relating to payment for certain defense installations in Canada and at Goose Bay, Labrador.
Exchange of notes at Washington June 23 and 27, 1944; entered into force June 27, 1944.

Agreement relating to reconversion of industry.
Exchange of notes at Ottawa May 7 and 15, 1945; entered into force May 15, 1945.

United States-Canadian Permanent Joint Board on Defense to continue collaboration for security purposes.
Announced in Ottawa and in Washington February 12, 1947.

Agreement delimiting area within Newfoundland territorial waters adjacent to the leased naval base at Argentia, Newfoundland.
Exchange of notes at London August 13 and October 23, 1947; entered into force October 23, 1947.

Agreement establishing a Joint Industrial Mobilization Committee.
Exchange of notes at Ottawa April 12, 1949; entered into force April 12, 1949.

Agreement relating to a final settlement for all war surplus property disposed of pursuant to the agreements effected by exchanges of notes of November 22 and December 20, 1944; March 30, 1946; and July 11 and 15, 1946.
Exchange of notes at Ottawa June 17 and 18, 1949; entered into force June 18, 1949.

Agreement relating to economic cooperation for defense.
Exchange of notes at Washington October 26, 1950; entered into force October 26, 1950.

Agreement relating to the extension and coordination of the continental radar defense system.¹
Exchange of notes at Washington August 1, 1951; entered into force August 1, 1951.

Agreement relating to the phase out of certain radar stations established under the agreement of August 1, 1951.
Exchange of notes at Washington May 25, 1964; entered into force May 25, 1964.

¹Provisions are terminated to the extent that they are inconsistent with the agreement of August 16, 1971

Agreement relating to the phase out of certain radar stations established under the agreement of August 1, 1951.
Exchange of notes at Washington September 30, 1966; entered into force September 30, 1966.

Agreement relating to the deactivation of the radar stations at Stephenville, Newfoundland and Melville, Labrador established under the agreement of August 1, 1951 relating to the coordination of the continental radar defense system.
Exchange of notes at Ottawa April 15 and June 30, 1971; entered into force June 30, 1971.

Agreement modifying the leased bases agreement of March 27, 1941 with the United Kingdom concerning bases in Canada in accordance with the recommendations of the Permanent Joint Board on Defense.
Exchange of notes at Washington February 13 and March 19, 1952; entered into force March 19, 1952.

Agreement relating to the application of the NATO status of forces agreement to U.S. forces in Canada, including those at the leased bases in Newfoundland and Goose Bay, Labrador except for certain arrangements under the leased bases agreement.
Exchange of notes at Washington April 28 and 30, 1952; entered into force September 27, 1953.

Agreement relating to the construction and operation of communications facilities on certain lands in the vicinity of Stephenville, Newfoundland.
Exchange of notes at Ottawa November 4 and 8, 1952; entered into force November 8, 1952.

Amendments:
May 1 and July 31, 1953

March 31 and June 8, 1955

United States-Canada Haines-Fairbanks pipeline agreement.¹
Exchanges of notes at Ottawa June 30, 1953; entered into force June 30, 1953.

¹Paragraph 5 of the Annex was amended by the Agreement of March 31, 1960 relating to disposition of the remaining elements of the CANOL pipeline facilities in Canada.

Agreement on the establishment and operation of a distant early warning system between the United States and Canada. Exchange of notes, with annex, at Washington, D. C. May 5, 1955; entered into force May 5, 1955.

Agreement relating to communications facilities at Cape Dyer, Baffin Island to support the Greenland extension of the distant early warning system. Exchange of notes at Ottawa April 13, 1959; entered into force April 13, 1959, operative January 15, 1959.

Agreement relating to the establishment and operation of certain radar stations in the Newfoundland-Labrador area. Exchange of notes at Ottawa June 13, 1955; entered into force June 13, 1955.

Agreement relating to the construction and operation of certain radar stations in British Columbia, Ontario, and Nova Scotia.¹ Exchange of notes at Ottawa June 15, 1955; entered into force June 15, 1955.

Agreement relating to the construction of a petroleum products pipeline between the United States Air Force dock at St. John's, Newfoundland, and Pepperrell Air Force Base, Newfoundland, with annex. Exchange of notes at Ottawa September 22, 1955; entered into force September 22, 1955.

Agreement relating to the construction of family housing units at Pepperrell Air Force Base, St. John's, Newfoundland, with contract attached. Exchange of notes at Ottawa April 18 and 19, 1956; entered into force April 19, 1956.

Agreement relating to the organization and operations of the North American Air Defense Command (NORAD). Exchange of notes at Washington May 12, 1958; entered into force May 12, 1958.

Extension:
March 30, 1968

Agreement providing for the establishment of a Canada-United States Committee on Joint Defense. Exchange of notes at Ottawa August 29 and September 2, 1958; entered into force September 2, 1958.

Agreement relating to the establishment, maintenance and operation of short range tactical air navigation (TACAN) facilities in Canada, with annex. Exchange of notes at Ottawa May 1, 1959; entered into force May 1, 1959.

Amendments:
September 19 and 23, 1961

Agreement relating to the establishment of a ballistic missile early warning system. Exchange of notes at Ottawa July 13, 1959; entered into force July 13, 1959.

Agreement relating to the disposition of the remaining elements of the Canol pipeline facilities in Canada. Exchange of notes at Washington March 31, 1960; entered into force March 31, 1960.

Agreement relating to the extension and strengthening of the continental air defense system (CADIN). Exchange of notes at Ottawa September 27, 1961; entered into force September 27, 1961.

Amendments:
May 6, 1964

November 24, 1965

Agreement for the construction on Canadian territory of three additional pumping stations on the Haines-Fairbanks pipeline. Exchange of notes at Ottawa April 19, 1962; entered into force April 19, 1962.

Agreement relating to the establishment, operation, and maintenance of a torpedo range in the Strait of Georgia, with annex. Exchange of notes at Ottawa May 12, 1965; entered into force May 12, 1965.

Agreement concerning the establishment, operation and maintenance of certain ground-to-air communications facilities in northern Canada, with annex. Exchange of notes at Ottawa December 1, 1965; entered into force December 1, 1965.

Agreement relating to the establishment of a ferry service between North Sydney, Nova Scotia and Argentina, Newfoundland, with annex. Exchange of notes at Washington June 6 and 10, 1966; entered into force June 10, 1966.

Agreement relating to the winter maintenance of the Haines Road. Exchange of notes at Ottawa May 10 and June 23, 1967; entered into force June 23, 1967.

Agreement relating to cooperation on civil emergency planning, with statement of principles. Exchange of notes at Ottawa August 8, 1967; entered into force August 8, 1967.

¹Provisions are terminated to the extent that they are inconsistent with the agreement of August 16, 1971

Agreement relating to the release of certain leased areas in Goose Bay, Newfoundland to Canada for the extension of Churchill Dam Road, with annex.
Exchange of notes at Washington January 31, 1969; entered into force January 31, 1969.

Agreement relating to the use of certain facilities at the United States Air Force Pinetree radar site at Hopedale, Labrador.
Exchange of notes at Ottawa June 11, September 19, 1969 and February 24, 1970; entered into force February 24, 1970.

Agreement relating to the transfer of the Redcliff site to Canada.
Exchange of notes at Ottawa May 10, 1971; entered into force May 10, 1971.

Agreement relating to new financial arrangements to govern the operation and maintenance of Pinetree radar stations in Canada with annex.
Exchange of notes at Ottawa August 16, 1971; entered into force August 16, 1971; operative August 1, 1971.

Exchange of Notes between Canada and the U.S.A. governing the Use of Facilities at the Goose Bay Airport by the U.S.A.
Signed at Ottawa June 29, 1973
Entered into Force July 1, 1973

Exchange of Notes between Canada and the U.S.A. constituting an Agreement to extend the Agreement of May 12, 1958 as extended on March 30, 1968 relating to the Organization and Operation of NORAD
Signed at Washington May 10, 1973
Entered into Force May 10, 1973

ECONOMIC AND TECHNICAL COOPERATION

Agreement relating to post-war economic settlements.
Exchange of notes at Washington November 30, 1942; entered into force November 30, 1942.

EXTRADITION

Conventions between the United States and the United Kingdom applicable to Canada:

Article 10 of treaty of August 9, 1842 (Webster-Ashburton Treaty)

Extradition convention signed at Washington July 12, 1869

Supplementary extradition convention signed at Washington December 13, 1900

Supplementary extradition convention signed at London April 12, 1905

Treaty providing for reciprocal rights for United States and Canada in matters of conveyance of prisoners and wrecking and salvage.
Signed at Washington May 18, 1908; entered into force June 30, 1908.

Supplementary extradition convention.
Signed at London May 15, 1922; entered into force November 3, 1922.

Convention to provide for extradition on account of crimes or offenses against narcotic laws.
Signed at Washington January 8, 1925; entered into force July 27, 1925.

Supplementary convention to the supplementary convention between the United States and the United Kingdom for the mutual extradition of fugitive criminals signed December 13, 1900.
Signed at Ottawa October 26, 1951; entered into force July 11, 1952.

FINANCE

Agreement relating to exemptions from exchange control measures.
Exchange of notes at Ottawa June 18, 1940; entered into force June 18, 1940.

FIRE PROTECTION

Agreement relating to the participation of the Provinces of New Brunswick and Quebec in the north-eastern interstate forest fire protection compact.
Exchange of notes at Washington January 29, 1970; entered into force January 29, 1970.

Agreement concerning cooperation in the detection and suppression of forest fires along the boundary between the Yukon Territory and Alaska with memorandum of agreement.
Exchange of notes at Washington June 1, 1971; entered into force June 1, 1971.

FISHERIES

Agreement adopting, with certain modifications, the rules and method of procedure recommended in the award of September 7, 1910, of the North Atlantic Coast Fisheries Arbitration.
Signed at Washington July 20, 1912; entered into force November 15, 1912.

Convention for the protection, preservation, and extension of the sockeye salmon fishery of the Fraser River system.
Signed at Washington May 26, 1930;
entered into force July 28, 1937.

Protocol amending the convention of May 26, 1930 for the protection, preservation, and extension of the sockeye salmon fisheries to include pink salmon in the Fraser River system.
Signed at Ottawa December 28, 1956;
entered into force July 3, 1957.

Agreement to facilitate the ascent of salmon in Hell's Gate Canyon and elsewhere in the Fraser River system.
Exchange of notes at Washington July 21 and August 5, 1944; entered into force August 5, 1944.

Convention for the extension to halibut fishing vessels of port privileges on the Pacific Coasts of the United States of America and Canada.
Signed at Ottawa March 24, 1950; entered into force July 13, 1950.

Convention for the preservation of the halibut fishery of the Northern Pacific Ocean and Bering Sea.
Signed at Ottawa March 2, 1953; entered into force October 28, 1953.

Convention on Great Lakes fisheries.
Signed at Washington September 10, 1954;
entered into force October 11, 1955.

Amendment:
April 5, 1966 and May 19, 1967

Agreement between Canada and the U.S.A. on Reciprocal Fishing Privileges in Certain Areas of their Coasts
Signed at Ottawa June 15, 1973
Entered into Force June 16, 1973

HEALTH AND SANITATION

Arrangement concerning quarantine inspection of vessels entering Puget Sound and waters adjacent thereto or the Great Lakes via the St. Lawrence River.
Exchange of notes at Ottawa October 10 and 23, 1929; entered into force October 23, 1929.

HIGHWAYS

Agreement providing for the construction of a military highway to Alaska.
Exchange of notes at Ottawa March 17 and 18, 1942; entered into force March 18, 1942.

Agreement relating to the southern terminus of the Alaska Highway.
Exchange of notes at Ottawa May 4 and 9, 1942; entered into force May 9, 1942.

Agreement relating to the construction of flight strips along the Alaska Highway.
Exchange of notes at Ottawa August 26 and September 10, 1942; entered into force September 10, 1942.

Agreement relating to the construction of the Haines-Champagne section of the Alaska Highway.
Exchange of notes at Ottawa November 28 and December 7, 1942; entered into force December 7, 1942.

Agreement relating to access to the Alaska Highway.
Exchange of notes at Ottawa April 10, 1943;
entered into force April 10, 1943.

Agreement relating to the designation of the highway from Dawson Creek, British Columbia, to Fairbanks, Alaska, as the "Alaska Highway".
Exchange of notes at Washington July 19, 1943; entered into force July 19, 1943.

IONOSPHERIC RESEARCH

Agreement relating to a cooperative study by the National Aeronautics and Space Administration and the Canadian National Research Council of the polar cap ionosphere.
Exchange of notes at Ottawa August 9 and 11, 1967; entered into force August 11, 1967.

JUDICIAL PROCEDURE

Arrangement relating to the admission to practice before patent offices.
Exchanges of notes at Washington December 3 and 28, 1937, and January 24, 1938; operative January 1, 1938.

LABOR

Agreement relating to unemployment insurance benefits.
Exchange of notes at Ottawa March 6 and 12, 1942; entered into force April 12, 1942.

Amendments

July 31 and September 11, 1951

Agreement relating to workmen's compensation and unemployment insurance in connection with construction projects in Canada.
Exchange of notes at Ottawa November 2 and 4, 1942; entered into force November 4, 1942.

Agreement relating to the extension of the Canadian Unemployment Insurance Act to Canadian employees of the United States Armed Services in Canada.
Exchange of notes at Washington December 20, 1955 and April 23, 1956; entered into force April 23, 1956.

Exchange of Notes concerning the seasonal movements of woodworkers between the two countries.
Ottawa, October 23 & 31, 1958
In force, October 31, 1958

MARITIME MATTERS (See also NAVAL VESSELS)

Treaty providing for reciprocal rights for United States and Canada in matters of conveyance of prisoners and wrecking and salvage.
Signed at Washington May 18, 1908; entered into force June 30, 1908.

Load line convention.
Signed at Washington December 9, 1933; entered into force July 26, 1934.

Agreement relating to reciprocal recognition of load line regulations for vessels engaged in international voyages on the Great Lakes.
Exchanges of notes at Ottawa April 29, August 24, and October 22, 1938, September 2 and October 18, 1939, and January 10 and March 4, 1940; entered into force March 4, 1940.

Agreement relating to the transfer to Canada of Loran stations at Port aux Basques, Battle Harbour, and Bonavista.
Exchange of notes at Ottawa June 26 and 30, 1953; entered into force June 30, 1953.

Agreement relating to the construction and operation of a Loran station at Cape Christian, Baffin Island.
Exchange of notes at Ottawa May 1 and 3, 1954; entered into force May 3, 1954.

Agreement for the construction, operation and maintenance of a LORAN-C Station in Newfoundland.
Exchange of notes at Ottawa September 16, 1964; entered into force September 16, 1964.

Agreement relating to the loan of certain Loran-A equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa June 7 and 8, 1965; entered into force June 8, 1965.

Agreement relating to the loan of additional equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa April 19 and July 28, 1966; entered into force July 28, 1966.

Agreement relating to the loan of additional equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa July 27 and October 25, 1967; entered into force October 25, 1967.

Agreement relating to the establishment of a Loran-A station at Gray Point, British Columbia.
Exchange of notes at Ottawa April 8, 1971; entered into force April 8, 1971.

METEOROLOGICAL RESEARCH

Agreement relating to the establishment of a cooperative meteorological rocket project at Cold Lake, Alberta.
Exchange of notes at Ottawa September 29 and October 6, 1966; entered into force October 6, 1966.

Amendment:

February 13 and April 24, 1969

MIGRATORY BIRDS

Convention for the protection of migratory birds in the United States and Canada.
Signed at Washington August 16, 1916; entered into force December 7, 1916.

NAVAL VESSELS (See also MARITIME MATTERS)

Agreement relating to naval forces on the American Lakes (Rush-Bagot Agreement).
Exchange of notes at Washington April 28 and 29, 1817; entered into force April 29, 1817.

Agreement relating to the construction of naval vessels on the Great Lakes (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Ottawa June 9 and 10, 1939; entered into force June 10, 1939.

Agreement relating to the armament of naval vessels to be incapable of immediate use (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Ottawa October 30 and November 2, 1940; entered into force November 2, 1940.

Agreement relating to naval vessels for training naval reserve personnel (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Washington November 18 and December 6, 1946; entered into force December 6, 1946.

PACIFIC SETTLEMENT OF DISPUTES

Treaty amending in their application to Canada certain provisions of the treaty for the advancement of peace between the United States and the United Kingdom signed at Washington September 15, 1914.
Signed at Washington September 6, 1940; entered into force August 13, 1941.

PATENTS

Agreement relating to the mutual interchange of patent rights in connection with RDX and other explosives.
Exchange of notes at Washington September 3 and 27, 1946; entered into force September 27, 1946.

POLLUTION

Agreement on Great Lakes water quality with annexes.
Signed at Ottawa April 15, 1972; entered into force April 15, 1972.

Agreement relating to the establishment of a Canada-United States committee on water quality in the St. John River and its tributary rivers and streams which cross the Canada-United States boundary, with annex.
Exchange of notes at Ottawa September 21, 1972; entered into force September 21, 1972.

POSTAL MATTERS

Money order agreement.
Signed at Washington September 30 and at Ottawa October 3, 1901; operative July 1, 1901.

Postal convention.
Signed at Ottawa January 12 and at Washington January 13, 1961; entered into force July 1, 1961.

PROPERTY

Convention between the United States and the United Kingdom relating to tenure and disposition of real and personal property.
Signed at Washington March 2, 1899; applicable to Canada June 17, 1922.

Supplementary convention providing for the accession of the Dominion of Canada to the real and personal property convention of March 2, 1899.
Signed at Washington October 21, 1921; entered into force June 17, 1922.

REMOTE SENSING

Agreement regarding a joint program in the field of experimental remote sensing from satellites and aircraft.
Exchange of notes at Washington May 14, 1971; entered into force May 14, 1971.

SATELLITES

Agreement on cooperation in intercontinental testing in connection with experimental communications satellites.
Exchange of notes at Washington August 13 and 23, 1963; entered into force August 23, 1963.

Agreement regarding an experimental communications technology satellite project with memorandum of understanding.
Exchange of notes at Washington April 21 and 27, 1971; entered into force April 27, 1971.

SCIENTIFIC COOPERATION

Agreement concerning activities of the United States at the Churchill Research Range with annex.
Exchange of notes at Ottawa November 16 and December 18, 1970; entered into force July 1, 1970.

Exchange of Notes between Canada and the USA concerning the Establishment of a Temporary Space Tracking Facility in Newfoundland in connection with Project SKYLAB.
Signed at Ottawa Dec 20, 1971 & Feb 22, 1972
Entered into Force Feb 23, 1972

Exchange of Notes between Canada and the constituting an Agreement concerning the continued use of the Churchill Research Range.
Signed at Ottawa June 29, 1973
Entered into Force July 1, 1973.

Exchange of Notes constituting an Agreement concerning a joint program in the field of experimental remote sensing from Satellites and Aircraft (ERTS)
Washington - May 14, 1971
In force - May 14, 1971

SEISMIC OBSERVATIONS

Agreement relating to a seismic research program known as VELA UNIFORM.
Exchange of notes at Ottawa May 18 and June 28 and 29, 1965; entered into force June 29, 1965, operative June 28, 1965.

Extensions and amendment:
June 26 and 27, 1968

March 25 and April 5, 1971

Agreement relating to provincial and municipal taxation of United States defense projects in Canada.
Exchange of notes at Ottawa August 6 and 9, 1943; entered into force August 9, 1943.

Convention and protocol for the avoidance of double taxation and prevention of fiscal evasion in the case of income taxes,*
Signed at Washington March 4, 1942; entered into force June 15, 1942; operative January 1, 1941.

SEWAGE DISPOSAL SYSTEM

Agreement relating to the construction of a sewage line from Dunseith, North Dakota to Boissevain, Manitoba.
Exchange of notes at Ottawa January 13, April 22 and June 9, 1966; entered into force June 9, 1966.

Convention modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes.
Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

SHELLFISH

Agreement providing for cooperative efforts to be directed toward sanitary control of the shellfish industry.
Exchange of notes at Washington March 4 and April 30, 1948; entered into force April 30, 1948.

Convention further modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes, as modified by the supplementary convention of June 12, 1950.
Signed at Ottawa August 8, 1956; entered into force September 26, 1957.

SMUGGLING

Convention to suppress smuggling.
Signed at Washington June 6, 1924; entered into force July 27, 1925.

Convention further modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes, as modified by the supplementary conventions of June 12, 1950 and August 8, 1956.
Signed at Washington October 25, 1966; entered into force December 20, 1967.

SOCIAL SECURITY

Agreement relating to Canada Pension Plan.
Signed at Ottawa May 5, 1967; entered into force May 5, 1967; effective January 1, 1967.

Convention for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties.¹
Signed at Ottawa June 8, 1944; entered into force February 6, 1945; operative June 14, 1941.

SURPLUS PROPERTY

Agreement relating to the disposal of government-owned surplus property.
Exchange of notes at Ottawa January 9, 1947; entered into force January 9, 1947.

Convention modifying and supplementing the convention of June 8, 1944 for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties.¹
Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

Agreement relating to the disposal of surplus United States property in Canada.
Exchange of notes at Ottawa August 28 and September 1, 1961; entered into force September 1, 1961.

TAXATION

Arrangement relating to relief from double income tax on shipping profits.
Exchange of notes at Washington August 2 and September 17, 1928; entered into force September 17, 1928; operative January 1, 1921.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons.
Signed at Washington February 17, 1961; entered into force April 9, 1962; operative January 1, 1959.

* Paragraph 2 of Article XI terminated December 20, 1960.

¹ Superseded by convention signed February 17, 1961 with respect to estates of decedents dying prior to January 1, 1959.

Schedule of Holes between Canada and the U.S.A., constituting an Agreement concerning the Administration of Income Tax in Canada affecting Employees within Canada of the U.S.A. Subject to such Taxation.
Signed at Ottawa Aug 1 & Sept 17, 1973
Entered into Force Sept 17, 1973

TELECOMMUNICATION

Agreement between the United States and Great Britain (for Canada and Newfoundland) for the prevention of interference by ships off the coasts of these countries with radio broadcasting.
Exchange of notes at Manchester, Mass., and Washington September 18 and 23, and October 1, 1925; entered into force October 1, 1925.

Arrangement governing radio communications between private experimental stations.
Exchanges of notes at Washington October 2 and December 29, 1928 and January 12, 1929; operative January 1, 1929.

Extension:
April 23 and May 2 and 4, 1934

Arrangement relative to the assignment of frequencies on the North American continent.
Exchange of notes at Ottawa February 26 and 28, 1929; entered into force March 1, 1929.

Regional arrangement governing the use of radio for civil aeronautical services.
Exchange of notes at Washington February 20, 1939; entered into force February 20, 1939.

Agreement providing for the allocation of channels in the radio frequency band 88 to 108 megacycles for frequency modulation broadcasting.
Exchange of notes at Washington January 8 and October 15, 1947; entered into force October 15, 1947.

Agreement relating to the operation and maintenance of the land line communication facilities between Edmonton, Alberta, and Fairbanks, Alaska.
Exchange of notes at Washington March 1 and 31, 1948; entered into force March 31, 1948.

Convention relating to the operation by citizens of either country of certain radio equipment or stations in the other country.
Signed at Ottawa February 8, 1951; entered into force May 15, 1952.

Agreement for the promotion of safety on the Great Lakes by means of radio.
Signed at Ottawa February 21, 1952; entered into force November 13, 1954.

Agreement relating to the allocation of television channels.
Exchange of notes at Ottawa April 23 and June 23, 1952; entered into force June 23, 1952.

Agreement relating to the sealing of mobile radio transmitting equipment.
Exchange of notes at Washington March 9 and 17, 1953; entered into force March 17, 1953.

Agreement concerning the coordination and use of radio frequencies above thirty megacycles per second, with annex.
Exchange of notes at Ottawa October 24, 1962; entered into force October 24, 1962.

Amendment:
June 16 and 24, 1965

Agreement relating to pre-sunrise operation of certain standard (AM) radio broadcasting stations.
Exchange of notes at Ottawa March 31 and June 12, 1967; entered into force June 12, 1967.

Amendment:
April 18, 1968 and January 31, 1969

Agreement relating to the operation of radio telephone stations.
Signed at Ottawa November 19, 1969; entered into force July 24, 1970.

TERRITORIAL ACQUISITION

Protocol of the cession of Horseshoe Reef.
Signed at London December 9, 1850; entered into force December 9, 1850.

TRACKING STATIONS

Agreement concerning the establishment and operation of a temporary space tracking facility in connection with Project Skylab with annex.
Exchange of notes at Ottawa December 20, 1971 and February 23, 1972; entered into force February 23, 1972.

TRADE AND COMMERCE

Agreement supplementary to the General Agreement on Tariffs and Trade, with exchange of notes.
Signed at Geneva October 30, 1947; entered into force October 30, 1947; operative January 1, 1948.

[Agreements rendered inoperative by the above-listed agreement of October 30, 1947, for such time as the United States and Canada are both contracting parties to the General Agreement on Tariffs and Trade:
Trade agreement signed November 17, 1938

Agreement terminating quota on imports of fox furs and restoring duty as fixed by the trade agreement of November 17, 1938, effected by exchange of notes of March 18, 1947, and proclamation

Agreement relating to the establishment of a Joint United States-Canadian Committee on Trade and Economic Affairs. Exchange of notes at Washington November 12, 1953; entered into force November 12, 1953.

Amendments:
October 2, 1961

September 17, 1963

Agreement relating to tariff duty on certain fish and fish products. Signed at Geneva June 8, 1955; entered into force July 24, 1955.

Agreement concerning automotive products. Signed at Johnson City, Texas January 16, 1965; entered into force provisionally January 16, 1965 and definitively September 16, 1966.

Interim agreement relating to the renegotiation of schedule XX (United States) to the General Agreement on Tariffs and Trade. Signed at Washington December 17, 1965; entered into force December 17, 1965.

Amendment:
June 30, 1967

WEATHER STATIONS

Agreement establishing a Pacific Ocean weather station program. Exchange of notes at Washington June 8 and 22, 1950; entered into force June 22, 1950.

Amendments:
September 25, 1950 and February 16, 1951

January 22 and February 22, 1952

June 4 and 28, 1954

APPENDIX "B"

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
STUDY ON CANADA-UNITED STATES RELATIONS

ANNEX II

List of Canada-United States Intergovernmental Bodies

March 28, 1974

1. The Canada-United States Inter-Parliamentary Group

This autonomous, non-governmental group was established in 1958 to provide a forum in which Canadian Parliamentarians and United States Congressmen could exchange views on matters of common concern to their countries. The Group consists of 24 Parliamentarians from each country with the Canada section being headed by the Speakers of the House of Commons and of the Senate and with the United States section being led by a Senator and a Representative. The host country provides the chairman of the meetings which take place once a year with the site alternating between Canada and the United States. The Group divides into a Defence and Security Committee and a Trade and Economic Affairs Committee and discussions are held in camera and off-the-record. A joint communiqué is issued at the close of each meeting outlining in a general way the course of the discussions.

2. Canada-U.S.A. Ministerial Committee on Trade and Economic Affairs

This Committee was established in 1953 by an exchange of notes which provided that the Canadian members would be the "Secretary of State for External Affairs and the Ministers of Finance, Trade and Commerce and either the Minister of Agriculture or the Minister of Fisheries, as appropriate" and for the United States of America "the Secretaries of State, the Treasury, Agriculture and Commerce, together with such other officials of Cabinet rank as either Government may designate from time to time, as the need arises." The notes further provided that the Committee's functions were to be:

- "(1) To consider matters affecting the harmonious economic relations between the two countries;
- (2) In particular, to exchange information and views on matters which might adversely affect the high level of mutually profitable trade which has been built up;
- (3) To report to the respective Governments on such discussions in order that consideration may be given to measures deemed appropriate and necessary to improve economic relations and to encourage the flow of trade;"

The most recent of the 13 meetings held to date, took place in November 1970. They alternate between Canada and the United States.

3. The Canada-United States Ministerial Committee on Joint Defence

The purposes and composition of this Committee are set out in the Exchange of Notes of September 1958, by which the Committee was established, as follows:

- "A) That there shall be established a Canada-United States Committee on Joint Defence to consist
 - For Canada, of the Secretary of State for External Affairs, the Minister of National Defence and the Minister of Finance;
 - and
 - For the United States, of the Secretary of State, the Secretary of Defence and the Secretary of the Treasurytogether with such other appropriate Cabinet Members as either Government may designate from time to time as the need arises;
- B) That the Committee's function shall be:
 - 1) To consult periodically on any matters affecting the joint defence of Canada and the United States;
 - 2) In particular, to exchange information and views at the Ministerial level on problems that may arise, with a view to strengthening further the close and intimate co-operation between the two Governments on joint defence matters;

- 3) To report to the respective Governments on such discussions in order that consideration may be given to measures deemed appropriate and necessary to improve defence co-operation;
 - C) That the Committee shall meet once a year or more often as may be considered necessary by the two Governments;
 - D) That the Committee shall meet alternatively in Washington, D.C., and Ottawa, the chairman to be a Canadian member when the meetings are held in Canada and a United States member when meetings are held in the United States."
- This Committee has met four times: in 1958, 1959, 1960 and 1964.

4. The Permanent Joint Board on Defence

The Canada-United States Permanent Joint Board on Defence was established in August, 1940 by Prime Minister King and President Roosevelt when they met at Ogdensburg, New York, to discuss the problems of mutual defence. The conversations that took place resulted in the press release of August 18 known as the "Ogdensburg Declaration". The text was passed as an Order-in-Council and published in the Canada Treaty Series.

The Permanent Joint Board on Defence is established with a United States Section and a Canadian Section. Each Section has its own chairman (a civilian), 3 representatives of General rank from the armed services, 3 assistant members, and two civilian representatives from the Department of External Affairs for Canada and from the State Department for the United States. During the last several years, it has become customary for representatives of the Canadian Departments of Transport and Industry, Trade and Commerce also to attend meetings of the Board as observers. Last year a General rank officer from the policy branch of DND joined the Canadian Section and this year, two Generals from the Office of the Joint Staff and the International Security Affairs Office of the Department of Defence were added to U.S. Section.

The Board was designed to be an advisory rather than an executive body, with the prime purpose of making recommendations to the respective governments on joint defence questions. At present, it normally meets three times a year at defence establishments in the two countries. No voting procedure is used and formal recommendations are passed unanimously. When a formal recommendation is approved by both governments, this approval becomes the executive directive to the government agencies concerned.

Some of the Board's functions were taken over by the military departments of each government after the United States entered the war in 1941. In recent years it has found its most useful role in the broad area of helping to mesh military requirements with political, economic and other considerations in order to facilitate military co-operation in ways satisfactory to the two governments.

5. Military Co-operation Committee

The MCC was established in 1946 to supplement the Permanent Joint Board on Defence. In 1949 it was separated from the PJBD and became directly subordinated to the Chief of Defence Staff for Canada and the Joint Chiefs of Staff for the United States. It is composed of two national sections, each of which is designated to be chaired by an officer of Major-General rank. The MCC which meets twice yearly is concerned with military planning for the defence of North America.

6. Canada-U.S. Regional Planning Group (CUSRPG)

This planning group is a committee of the MCC and part of the NATO Command structure. It covers the North American area, and develops and recommends to the NATO Military Committee plans for the defence of the Canada/United States region. It meets alternately in the two countries.

7. The Senior Committee on United States/Canadian Defence Production-Development Sharing Programme

Although arrangements in this field date back to the Hyde Park Declaration of war years, the Senior Committee was organized in 1958. It originally met twice a year at the Deputy Minister/Assistant Secretary level but has not met since 1966. The Steering Group of the Senior Committee, chaired at the Assistant Deputy Minister level, was re-installed in 1972 and presently meets on a yearly basis.

Its objective is to co-ordinate so far as possible, the defence requirements, development, production and procurement for the two countries in order to achieve the best use of their respective production resources for common defence.

8. The United States-Canada Civil Emergency Planning Committee

Co-operation between Canada and the United States in the field of Civil Emergency Planning is governed by the Agreement effected in the Exchange of Notes of August 8, 1967. The United States-Canada Civil Emergency Planning Committee, which is dealt with in the Agreement, meets at the senior official level. The Agreement stipulates that the Committee will "meet at least once each year at such times and places to be agreed upon".

In this Committee the two countries co-operate on civil emergency planning (including civil defence) in order to achieve the maximum degree of compatibility feasible between emergency plans or systems within each of the two countries and to recommend to their respective governments co-operative arrangements for mutual assistance in the event of armed attack on either country in North America.

9. North American Air Defence Command

In 1957 the Minister of National Defence of Canada and the Secretary of Defence of the United States announced agreement to the setting up of a system of integrated operational control for the air defences "in continental United States, Canada and Alaska" under an integrated command responsible to the Chiefs of Staff of both countries. The understanding was finalized by an Exchange of Notes on May 12, 1958 which provided for the agreement to run to ten years. In May, 1968 it was renewed for a further five years, it being understood that a review of the Agreement may be undertaken at any time at the request of either Party and that the agreement may be terminated by either Government after such review following a period of notice of one year. Last May, in view of the evolving strategic situation and the need to further examine the component elements of the concept for a modernized air defence system, the Agreement was renewed for only another two years, i.e. until May 1975.

NORAD is a joint command for air defence and includes such combat units as are specifically assigned to it by the two governments. The appointments of the Commander and his deputy must be approved by both governments and both officers cannot be nationals of the same country.

10. International Joint Commission

The International Joint Commission was established in 1911 under Article VII of the 1909 Canada-United States Boundary Waters Treaty.

The Commission's functions encompass finding equitable solutions to a wide variety of problems arising along the Canada-United States boundary. However, over the years it has dealt mainly with questions involving the regulation of the flows of boundary waters and the abatement of boundary waters pollution and trans air pollution.

The Commission is composed of six commissioners, three appointed by the Government of the United States and three appointed by the Government of Canada. The Canadian section is responsible to the Secretary of State for External Affairs. The Commission meets semi-annually and alternates the site of its meetings between Canada and the United States.

11. International Boundary Commission

The International Boundary Commission was established under Article I of the Canada-United States 1908 International Boundary Demarcation Treaty. This treaty was later amended by the 1925 Canada-United States Boundary Demarcation Treaty.

The functions of the Commission include inspecting the boundary; repairing, relocating and rebuilding boundary monuments; keeping boundary vistas open; maintaining at all times an effective boundary line and determining the location of any point of the boundary which may become necessary in the settlement of any question between the two governments. In order to give appropriate support to the increasingly complicated problems stemming from the natural growth along the boundary line it was found necessary within Canada to enact the 1960 International Boundary Commission Act.

The Commission is composed of two commissioners, one appointed by each government. The staff of the Canadian section of the Commission is provided by the Department of Energy, Mines & Resources but the Canadian Commissioner reports to the Secretary of State for External Affairs. There is at least one meeting annually alternately in Ottawa and Washington.

12. Great Lakes Fisheries Commission

The Great Lakes Fisheries Convention which set up the Commission came into force in 1955 upon ratification. The Canadian Act to implement the convention was assented to on June 28, 1955. The Convention represented some 50 years of attempts by both countries to adopt a common approach to the conservation and development of the Great Lakes Fisheries. The Commission is divided into two national sections, each of three members. The Canadian agent for the Commission is the Department of Fisheries and Forestry and it works in close co-operation with the Government of Ontario for re-stocking the lakes as lamprey control becomes effective. The Commission has no regulatory powers; it can only make recommendations.

13. The International Pacific Halibut Commission

The Convention between Canada and the United States for the preservation of the halibut fishery in the North Pacific and Bering Sea was first negotiated in 1923. It was revised in 1930, 1937 and again in March, 1953. The original Convention set up the International Fisheries Commission, but in 1953, the name was changed to its present one.

Under the original treaty the Commission was divided into two national sections, with two Commissioners from each country. However, the present Convention increased the membership to 3 from each country. The Commission meets annually.

14. Pacific Salmon Commission

The original Convention between Canada and the United States for the protection, preservation and extension of the sockeye salmon fisheries in the Fraser River system was signed on May 26, 1930. A protocol signed December 28, 1956 extended the agreement to include pink salmon. The Commission is responsible for regulating the fisheries for sockeye and for pink salmon with a view, where feasible, to allowing equal catches by each country's fishermen. The cost of all improvements in spawning grounds, the construction and maintenance of hatcheries, rearing ponds and other facilities for the propagation of salmon stocks and the cost of removal of obstructions is borne equally by the two governments on the basis of annual appropriations.

The Commission consists of six members with three members from each national unit. An advisory committee also exists, composed of various branches of industry to examine and comment on an informal basis on all proposed orders, regulations and recommendations.

There is an annual meeting. Interim meetings are held throughout the year when the situation requires them.

Each contracting party has agreed to enact and enforce such legislation as may be necessary to make effective provisions of the Convention and the orders and regulations adopted by the Commission.

15. Canada-U.S.A. Balance of Payments Committee

This Committee was established in 1963 in order to consider financial questions arising out of United States legislation designed to improve their balance of payment situation.

16. Canada-United States Technical Committee on Agricultural Marketing and Trade Problems

At the June, 1967 meeting of the Canada-United States Ministerial Committee on Trade and Economic Affairs, it was agreed to establish this Technical

Committee to consider questions of trade in agricultural products between the two countries. Its first meeting was held in Ottawa in November of the same year. The two governments are represented at meetings by senior officials in the agriculture and trade fields.

17. The Roosevelt Campobello International Park Commission

The agreement establishing the park was signed in January, 1964. Its establishment was prompted by the offer of the Hammer Family who donated the Roosevelt cottage and surrounding grounds on Campobello Island, New Brunswick to Canada and to the United States to commemorate President Franklin Roosevelt. The Commission is divided into two national sections, each with three members plus alternates. The positions of chairman and vice-chairman alternate between the two countries every two years.

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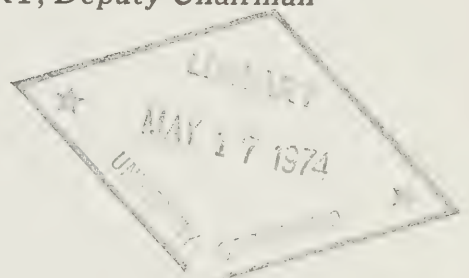
SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, *Deputy Chairman*

Issue No. 2



WEDNESDAY, APRIL 3, 1974

Second Proceedings Respecting:

Canadian Relations with the
United States

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday, April 3, 1974.

(3)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.45 a.m. this day.

Present: The Honourable Senators Bélisle, Cameron, Carter, Connolly (*Ottawa West*), Grosart, Lafond, Laird, Lapointe, McElman, McNamara, Rowe, Sparrow, van Roggen and Yuzyk. (14)

Present but not of the Committee: The Honourable Senator McGrand. (1)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Due to the unavoidable absence of the Chairman, the Deputy Chairman, the Honourable Senator Grosart, took the Chair.

The Committee continued its study of Canadian Relations with the United States.

Witness: Mr. William Diebold, Jr., from the Council on Foreign Relations, New York.

At 12.55 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, April 3, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 10.45 a.m. to examine Canadian relations with the United States.

Senator Allister Grosart (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, I am sorry to have to announce that Senator Aird, our distinguished chairman, will not be with us this morning. He is in Europe and he asked me to convey his regrets to you, Mr. Diebold. I think you will understand his unavoidable absence when I tell you that his is also co-chairman of the Canadian-American Defence Committee and on the famous Committee of Nine. So we do have to carry on without him at times.

This is the second meeting of the committee since we undertook our inquiry into some aspects of Canadian-American affairs. The Canadian Secretary of State for External Affairs was in attendance at our first meeting and gave a general explanation of government policy.

Today we have with us Mr. William Diebold, Jr., of the Council on Foreign Relations, of New York. He is, I believe, a senior research fellow at the Council at the moment. Honourable senators will remember that a colleague of his, Mr. Robert Schaezel, was with us when we discussed Canadian-European Economic community affairs.

The Council on Foreign Relations is a distinguished American organization, somewhat similar to the Royal Institute of International Affairs in the United Kingdom or the Canadian Institute of International Affairs. It publishes the influential *Foreign Affairs* quarterly, which is the "Bible" of many in this field.

Mr. Diebold was born in New York, and has done graduate work at Yale and the London School of Economics. He has worked in the Office of Strategic Services and in the State Department. He returned to the Council in 1947.

Some honourable senators will be familiar with some of his publications. He has written a number of books and contributed a great many articles. Personally, I have only read one of your books, sir, so I am, you might say, an inconsistent reader.

Mr. William Diebold, Jr., Council on Foreign Relations, New York, N.Y.: It puts you well ahead of the crowd.

The Deputy Chairman: That is the book entitled *The United States and the Industrial World*, in which you discussed at some length some possible areas of limited or extended free trade between Canada and

the United States. I am quite sure you will have questions from the senators along those lines.

Mr. Diebold has prepared a brief opening statement. Perhaps I should tell him now how grateful we are to him for breaking into his very busy schedule to come here. He arrived on an aircraft at the airport not more than three-quarters of an hour ago, so if he is a little breathless at the start you will understand. Following his opening remarks I will call on Senator McElman to start the questioning, then recognize senators as they indicate their wish to direct questions to Mr. Diebold.

Mr. Diebold: Thank you very much, Mr. Chairman. I am very honoured that you have asked me to meet with you at this early stage of your re-assessment of Canadian relations with the United States. As a long-time student of the subject, I know I shall find this session interesting and I hope that, in the end, it will prove to be of some use to you, too. Allow me to take just a moment to explain the capacity in which I speak. It is an entirely personal capacity. The Council on Foreign Relations in New York for which I work, as the Chairman mentioned, is a private, non-profit organization concerned with the study and discussion of international affairs and the American interest in them. It is quite comparable in many ways to the Canadian Institute of International Affairs. As an organization, the Council, which has a very diverse membership, takes no position whatever on issues of United States foreign policy or, for that matter, on anything else. Members of the staff, however, or anyone else who undertakes work supported by the Council, are expected to think hard about the subjects on which they work and that, naturally enough, leads one to have opinions and to form conclusions. If we were not able to express those opinions and conclusions, we would feel that our work was rather barren. But what I say is what I think.

As the Chairman indicated, my work at the Council has been primarily concerned with international economic affairs and the foreign economic policy of the United States. Since I try to relate what I do in those fields to the real world, I cannot close my eyes entirely to international political considerations, or to the concern of everyone with security problems. My interest in Canadian affairs goes back quite a long way. I suppose it must have started in my childhood, with reading and visits to your country. It might have had a much earlier origin, because my father once told me that he came very close to going to the Klondike, but he did not. Professionally, I think my interest dates from the war, when I took part in a number of meetings with Canadian officials and economists to discuss problems of the post-war international order.

Senator Connolly: I am sorry, but what was it you discussed?

Mr. Diebold: This was at the time we were talking about the problems of the post-war world that was to come—Bretton Woods, GATT and the whole gamut of issues. I was much involved on the American side in preparing for them. We discussed them with Canadian officials and experts.

Since 1947 I have been a part-time Canada watcher, a frequent Canada visitor and a regular enough goer-to-conferences on both sides of the border to occasionally say some words on the subject of Canadian-American relations. Among those words were an initial reaction to Mitchell Sharp's statement on options for the future of Canadian-American relations, which was asked for by my friends at the Canadian Institute of International Affairs. I imagine that is what led to my being asked to come here. I shall, therefore, address myself, at least initially, to Mr. Sharp's paper without, if I can help it, repeating myself in too obvious a fashion. That is not altogether easy. For one thing, I do not really have a great deal more to say of a general nature than I wrote in that pamphlet published by the Canadian Institute. Secondly, I feel very strongly that, just as the options are posed for Canadians, so most of the discussion of the issues they raise should be among Canadians. You do not need a lot of advice from visitors. Finally, my reaction to the statement is not so strong, pro or con, that emotion or conviction give me any missionary zeal to set you right on the things it talks about.

Indeed, the tone, the style, the perceptiveness of that paper make it a really admirable statement, balanced, moderate and full of nuances. For me those are merits in dealing with a complex subject, especially when the author is a public official. The document is quite remarkable among state papers for its sensitive treatment of a number of key issues in the relations of our two countries. For example: the inevitable asymmetry which results from the difference in size of the two countries; the related matter of dependence; the fact that United States national policy is only rarely the main source of what many Canadians see as problems; the extent to which the basic question in Canadian-United States relations is often "What kind of Canada do Canadians want?"; and, finally, the great importance of what the paper calls "distinctness". I think that is an excellent term, which not only sums up many issues, but suggests the conclusion that to the extent distinctness is achieved and accepted quite a few other problems may disappear. A passage on page 12 of the statement says:

...more and more Canadians have come to conclude that the American model does not, when all is said and done, fit the Canadian condition.

If that is so, you have excellent defences, it seems to me, against much of what many people here fear. Whether Canadians would in fact do well to accept or reject all or any part of the American model should never, in my opinion, be a matter of official dispute between our two countries. That it must sometimes be a matter of dispute among Canadians seems to me inevitable.

One of the greatest strengths of Mr. Sharp's paper is its acute awareness of the extraordinary range of private and public affairs that become involved in Canadian-American relations. Far more issues arise between us than in the relations that either of us has with any other countries, or than are usually thought of as falling into the classical realm of "foreign policy". Consequently, many matters that are usually thought of as domestic are with us matters of international relations and many aspects that might be considered private affairs become public. To a degree, this is happening all over the world, particularly in the relations among the non-communist, industrialized countries. Canadians and the people of the United States, however, have really carried it very far. Maybe the whole world can learn something from these developments. What we see is something far more complex than is suggested by the usual claim of governments to represent "the national interest". We all know that this term, the national interest, is a term of art, especially in economic affairs, and that it really covers a particular kind of compromise among private views about what ought to be done. It hides conflicts of private interests as well, such as those that divide producer from consumer, farmer from city dweller and one section of the country from another. Often these lines of interest, or the conflicts of interest, cut across national boundaries and the interests could be better served by some kind of international co-operative arrangement than if each one has to be submerged in two separately defined sets of what are called "national interests". Whether that makes these problems any easier to deal with is not at all certain. I guess that many Canadians think that a good part of their problem is precisely how to find the true national interest in this welter of particular interests, yet unless we recognize the peculiar characteristics of the relation between our two societies and economies, we are not likely to satisfy anyone very well in the future.

Against these strengths in Mr. Sharp's statement that I have been talking about must be set some pretty obvious weaknesses. The greatest, and the one that has been most noticed, I think, is vagueness. It does not really tell you whether or not the Canadian economy is strengthened by a step that makes for more specialization in foreign trade or less, or whether or not vulnerability is reduced by borrowing in New York to develop resource production.

Maybe all you can do in an official statement of general policy is to point a direction, but I get the impression that not all Canadians agree in what direction the statement points. To my mind there is a clear clue to that matter in the fact that the three options are not symmetrical. There is none that matches the one that calls for integration with the United States. Thus the third option appears to be what might be called the most nationalistic of the three, but it does not go very far in that direction by the standards of some people in Canada—or the rest of the world these days.

My own assessment is that the third option is a policy of leaning. While the direction of the leaning is suggested, it is hard to get a firm grip on exactly what is being proposed.

Sometimes I think the best interpretation is that the minister is basically calling for the regular interposition of a Canadian governmental judgment about a wider

range of transactions with the United States than has existed in the past, but without saying in advance just what the content of this judgment should be. That would be something like your new investment legislation, if I understand it correctly.

In other words, if that interpretation is correct, the Sharp statement would be more procedural than substantive. I am not really in a position to say whether that is the correct interpretation. If it is, one would have to say that it left the economic meaning of the third option indeterminate until one got down to cases.

Let me conclude by a shift in focus away from the actual text of the statement. Mr. Sharp quite rightly stresses the fact that Canadian-United States relations are affected by changes in the global setting. That is a subject which I think is worth fuller exploration, especially as there are quite contradictory forces at work. Without elaborating, I should like to make three rather blunt statements about how the events of the last 18 months might affect the third option.

The increased economic and political power of countries outside North America is noted in the statement as giving Canada opportunities to dilute the bilateral relation. That is correct, provided these shifts in power lead toward a greater opening up of economic relations and a movement in the direction of what we used to call multilateralism, rather than in the direction, which many people see as being more likely, of a stress on blocs, poles, or bilateralism. There is nothing inevitable about these developments, so far as I can see. My own strong preference is for the more co-operative system, but my experience tells me that that is the most difficult of the results to achieve. It requires sustained attention by a number of governments who are in some measure agreed on their aims.

We have been through this once before. I referred to the fact that in the forties I was involved in what was then called post-war planning. Canada was one of the founders of the resulting system, which in my opinion served us very well for a quarter of a century. Difficulties later arose in the system and, in Canada's case, I would say that at some time, perhaps about the beginning of the Kennedy Round of trade negotiations in the early sixties, this country moved from becoming a leader in that system to becoming something of a laggard, I am afraid. I am not altogether clear how things stand right now, but I am quite sure that if the shift in international economic power does become a movement toward blocism, Canada will find that the pressures for continentalism, bilateralism, a special relation, dependence—use whatever terminology you like—will be strengthened both here and in the United States.

My second comment concerns American policy. The Sharp statement speaks of pragmatism in what the United States was doing. That pragmatism has been felt by a number of people in my country as a weakness, precisely because this old system of economic co-operation had gotten into serious disrepair, and it was not really going to be possible to rebuild it without a sense of direction and purpose. That is what pragmatism does not give you. Moreover, in the year after August 1971, the term "pragmatism" in the United States had distinct tones of economic nationalism, a kind

of "looking after our own interests" that could finally destroy the old open system.

Had development gone on in that direction, the pursuance of the third option might very well have posed some unpleasant choices between a sharper nationalistic reaction in the United States than was allowed for in the original paper, or accepting a higher degree of continentalism than I think was intended or that most people would find in the text. You can certainly still hear many echoes of those attitudes, but I would say that by the fall of 1973 a year after the paper was published, United States policy was fairly clearly set on a course of trying to rebuild the system of international economic co-operation. In those circumstances, inevitably, the prospects for the third option improved.

I come now to my third point, which is quite simply that the world has again changed since last fall. The combination of the energy crisis, high demand for food, and fear of a more general raw materials shortage over the foreseeable future has had three major consequences. The first is a great strain on international trade and payments. No one feels able to agree now to arrangements for monetary and trade reform that were shaping up as quite good possibilities six or nine months ago.

The second consequence is the strong shove that many countries feel toward the need for unilateral action to escape as best one can from a difficult situation without too much regard for what happens to others. Whether any significant degree of international co-operation can be salvaged from that kind of a situation is far from clear.

The third consequence is something that Canadians have known all along—producers of energy, food and raw materials have been given a new importance in the world. How long this will last, on what conditions they can make the most use of their power, and to what ends, are large and, on the whole, rather new questions. The old patterns of co-operation are inadequate to deal with them. What new ones would make sense is not so easy to see. The temptation to muscle flexing and unilateralism by producers is clearly very great. For Canada, in these circumstances, the third option seems to me to take on added dimensions, and perhaps added uncertainties as well. Thank you.

The Deputy Chairman: Thank you, Mr. Diebold.

Honourable senators, before I call on Senator McElman, I am sure you would want me to welcome Mr. Robert L. Funseth, who is sitting behind Senator Carter. He is Political Counselor at the United States Embassy. We extend to him a warm welcome.

Senator McElman?

Senator McElman: Mr. Chairman, perhaps I should start, through you, by saying to Mr. Diebold that I am a Maritimer from New Brunswick, and traditionally in that part of the country we support free trade, God, clam chowder, and more free trade—not necessarily in that order. That philosophy would normally lead one to support the second option, that of closer integration. Canada has gone for the third option, that being to lessen its vulnerability and to diversify its trade and other relations.

To get the discussion started, Mr. Diebold, perhaps you would permit me to change positions and say that were I a citizen of the United States today I would think it would be in the interest of my country to achieve three broad things, those being: first, a continental energy policy, taking into account the great hydroelectric power potential which still exists in Canada and the yet undeveloped oil and natural gas resources and, to a lesser degree, coal, and other resources such as tidal power; secondly, a continental resource policy, which would include many of those same things and, additionally, almost limitless supplies of fresh water and strategic minerals, and so forth; and, thirdly, a rapid expansion of free trade arrangements towards the ultimate elimination of all trade barriers between Canada and the United States.

I would ask you to cast yourself in the role of a Canadian and react to what would seem to be, from the United States standpoint, the desirable development of those three areas.

Mr. Diebold: As I have said I am not going to give you gratuitous advice, your asking me to play the role of a Canadian reacting to a Canadian's view of what American policy should be, which is not entirely my view of what American policy should be, creates a fairly complicated situation.

Senator McElman: I appreciate that.

Mr. Diebold: Taking the first two points, which I feel one can safely take together—energy and resources—I think I understand very well the feeling that since the ratio of demand to supply in the two areas is so different, and since there is a political division between two governments, each responsible only to part of the population of North America, there has to be a different calculation in Ottawa about what should be done from what would be the calculation in Washington. Were I a Canadian, I would say that something like the third option would be what I would look at. However, I would be quite puzzled—and here I am probably very close to the end of my knowledge of the ins and outs of your total resources and your capita supplies—I would be quite puzzled to know exactly how such a policy should shape up. No doubt I would want Canadian energy and raw materials to be used to the benefit of the Canadian economy. But what does that mean? The classic position says that I do not wish merely to export raw materials, but at the same time I need to export some of them in order to import the things I wanted from the rest of the world. There follows the familiar question of processing: If one comes to something like absolute limits—not enough to go around—the question becomes: “Can I keep Canadian resources here at home instead of letting the other people have them?” That is not quite as simple a question as it sounds. One naturally says that the domestic consumer would have first claim. But if resources are short throughout the world, then every government will seek to give priority to its own people for one thing or another. So export restrictions would become general and concern for one's position in world trade would have to focus on export restrictions as well as import restrictions. As a Canadian, I would feel just as I feel as an economist, that Canada is bound to benefit in the long run from a relatively open system of international trade. Canada is

far more vulnerable to what happens in that system than is, say, the United States. So as a Canadian, I would exercise my third option, but in a way that looks ahead and not simply by saying, “Here I am sitting on top of what is wanted.” I am indeed in a good position, but if I make it too difficult for others, or set the terms too high, then other nations will either find alternative sources or try to improve their bargaining position by putting export controls on something I want—possibly capital—or, by whatever means they can.

If one rejects the word “continentalism,” which, I am told, is not an okay word on this side of the border there still remains the fact that the greatest amount of trade on the part of our two countries is between them. The largest market for Canadian resources, in whatever form you wish to export them, is the United States. I should have thought that inevitably there would be the recognition—and I am playing the role of a Canadian now—that the Americans can re-assess this game as well as I can. They would say, “We cannot get Canadian resources except on terms that the Canadians agree to. Where, then, are the lines of mutual advantage?” There must be mutual advantage. We cannot just sit here on two separate sets of resources that happen to be in differently described political unions and think that this difference turns production and consumption into a zero-sum game. A zero sum game is one in which one party gains and another loses. That does not have to happen in international economics as a rule. (Though there are parts of it which come out that way). But you can make economics a zero-sum game if you treat it that way. Extreme economic nationalism assumes that my gain is always your loss. If you play that game you may both get less than if you play for the possibilities of mutual gain.

I apologize for being so vague, senator, but I do not know just how Canadians could maximize the bargaining power which their relatively great endowment of natural resources provides. I see difficulties; I see important differences of opinion among Canadians. I do not feel that I am able to drive some great clear line through, the issue—even playing the role of a Canadian—and say that this is how you ought to do it.

The Deputy Chairman: I can assure you, Mr. Diebold, that in this room you will find pretty well all of the extremes, from more or less extreme Canadian nationalism to more or less extreme Canadian continentalism.

Senator McElman: With the development of trading blocs in the world today and with what appears to be the defensive mechanism which is coming into place in the United States as a result of trade matters and the dreadful monetary concern, were Canada to be regarded by the United States as a nation which took advantage of the problems which it is currently experiencing, and were Canada to appear to be reluctant to ship raw resources to the United States, is the United States in a position to divert the trade it now has with Canada, to any degree, to other nations of the world as a retaliatory measure? I am not suggesting that this would be the case; I am just hypothesizing. We are the greatest trading partner of the United States, and the United States is our greatest trading partner.

Mr. Diebold: It would certainly be an extraordinarily difficult and very peculiar kind of activity. It reminds me

of the kinds of things nations had to do during the war when we had to combine adjusting ourselves to the enemy's taking over various pieces of the world from which we used to get supplies, while carrying on a form of economic warfare in which we took over the former economic activity of the enemy—for example, to buy and sell in Latin America in order to keep out Nazi economic penetration. That is precisely the kind of thing that I do not think we want to have our relations degenerate into.

I do not know the answer to your question in terms of what particular products could be gotten from alternative sources. That is a factual matter which I do not have command of the facts. Surely we are talking about a degree of dislocation which no one wants. The question is not, "Can you do it?" The question is, "Can you avoid getting to the point of having people think that is the problem?" Because it surely is not. If pushed, I suppose Americans could say, "Where else are the Canadians going to sell their resources if not to us?" For some things there are markets and for some things not, or not as advantageous a market. But this is not the way that I think it makes any sense to go at these problems.

Senator McElman: Taking into account that historically we are our mutually greatest trading partners, and that we would both have difficulties if that situation did deteriorate, what is the option? It is a combination of the three that will bring the best result for both the United States and Canada within the world we have today? Is it selective free trade between the two countries? Is it wide open? Is it a variation or a mix of all three?

Mr. Diebold: We have a high degree of free trade already. I think we sometimes forget that most of what goes across the border between the United States and Canada is outside the tariff already.

I did not respond to part of your earlier question. You hypothesized that it should be American policy to have free trade in everything with Canada. As an American, that causes me a little difficulty. As an economist, I think I can make a good argument as to why over-all free trade between the two countries would be desirable. From product to product, the value of getting rid of the remaining barriers differs considerably. The conclusion depends a bit on what you assume about each of our trade relations with the rest of the world. General economic benefit aside, if you ask what the United States interest in this is, I have to say that the discrepancy in the size of the two economies becomes very important. The gain to the United States from the elimination of Canadian tariffs on, let us say, all manufactured goods, must be far less than the potential gain, and also therefore more potential disturbance, to Canada, from free trade with the United States. I have felt for a long time that on this range of issues there is no reason why the Government of the United States should be pressing Canada to eliminate all import barriers.

I think the real problem for Canada is whether you gain or lose by tariffs protecting your industries against American competition. There you come to the kind of problem I touched on briefly when I said that what is traditionally called national interest is just a veil over a complex of consumer-producer interests. The same is true in the United States. But except possibly in certain

lines of production where Canada is the more important producer, the discrepancy in size of the two economies means that the adjustment to free trade would be larger in Canada, so it should be Canada's choice. That does not mean the United States would automatically agree to any given limited slice of free trade, just because Canada decided it was a good thing. Any proposal would normally be subject to bargaining. We too have our protected interests. While as a consumer I think probably we would be better off if the resources now shielded by tariffs were used in industries where we do not need to have protection, there is an adjustment problem; there might be unemployment; there would be people who would no longer be able to make their livelihood in the same way. Those things would have to be taken into account.

Now let me turn to your larger question of what kind of arrangements would be better for both of us in global terms. I lean very strongly to thinking that both of us would gain very substantially from the elimination of quite a wide range of trade barriers throughout the world. I do not really think that what has been left of the tariff in Western Europe, Japan and North America is anything like as important as what we have all succeeded in eliminating in the last 25 years. The lowness of trade barriers is extraordinary. There are awkwardnesses about that, but I find it very hard to believe that if we think we have all gained by what we have done in the last 25 years we do not all stand to gain by pushing it a bit farther.

We then come to this very difficult set of things labelled "non-tariff barriers." It is generally recognized now, I think, that this is not a proper term; that "trade distorting practices," or something of that kind, would be more accurate, because we are talking about subsidies as well as hidden protection, customs classification and that range of things.

There it seems to me some of the same logic that applies to the removal of tariffs and quotas also applies. In other words, the old general free trade logic, subject to all its qualifications about national security, time for adjustment, and so on, must apply. However, I do not think that is an adequate approach, because many so-called non-tariff barriers are really the by-product of domestic economic policies. When the management or shaping of a national economy also creates barriers to international trade, I do not think you can say *a priori* that the elimination of the barrier to trade is always more desirable than what is being done to shape the economy. The most obvious example is in some sorts of environmental controls. If it is necessary to impede trade to keep up national standards of pollution-free life that are higher than those other people want, you may very well have a case for saying that the interruption of trade is less important. If you are developing depressed areas you get into the same kind of calculation. But in either case you can get into some real problems because if you take measures that throw a burden on other countries, as trade barriers do, you cannot expect them to live by different rules from the rules that you live by. They can retaliate. They can take for themselves measures that throw the burden on you. Consequently, when one uses any one of the range of subsidies, governmental procurement, tax rebates and so on, that all

of us do, in order to develop a backward area or meet problems in a depressed area, we would be far better off if we were all agreed about what were proper methods and what were not proper methods. Take the kind of dispute we are having at the moment about the Michelin case. That is a classic example of everybody doing what—by a partial vision—seems right, but which adds up to a very difficult problem that is not black and white by any objective standard. What for Canada is a sensible means of creating employment and exports appears to American producers to be unfair competition and is plainly labelled as such in American law.

I would take that as an awfully good example of the kind of thing we all ought to be considering in a broad international forum. Not everybody in the world is interested in these problems, but we in North America and the Japanese and western Europeans certainly are. Such activities are central to a lot of what all these governments do. The United States has new kinds of tax regulations that worry others—they are called DISC. This practice is being challenged, and that is proper, but so should be what the rest of the world does to promote exports or apply turnover taxes to imports. Not all barriers can be eliminated. But you have to establish something like common standards. Minimal damage should be done to other people when you want to make a social adjustment in your own society. You ought not to thrust the burden on other people. In the United States we did that with our agricultural policy for a long time. We have moved to a point now where there is far less of that kind of thing in our agricultural policy. Both Canada and the United States are running into such difficulties in Europe. I think that a further freeing of international trade would benefit both Canada and the United States.

Senator Carter: I am going to ask Mr. Diebold to continue in his role as a Canadian *pro tem*, and I am going to approach the problem from a slightly different angle.

I should like you to think in terms of the forces that are at work with respect to the relationship between our two countries, Mr. Diebold. You have mentioned that Mr. Sharp's paper sort of leaned in the direction of nationalism, and that it was vague.

I think the reason for that is that the forces at work have not yet resolved themselves and nobody can tell until that has happened just in what direction the ultimate result will point.

What are those forces? I am only going to name a few of those forces. One of them is a tremendous fund of goodwill between our two peoples. Like Senator McEldon, I am a Maritimer. I come from Newfoundland, and I can say that our ties are perhaps even closer with the United States than those of any other maritime province because we had your people among us during the war. There is a tremendous amount of affection for them in Canada as a whole, but particularly in Newfoundland.

Then there is the question of national defence, in which our destinies are intertwined. We could not do away with that.

There is the tremendous trade between our two countries, which, so far as we can see into the future, is going to stay that way. We will always be each other's

best customers, and although your President does not always remember it, that does not alter the fact, which I think we will have to accept, that that situation is going to obtain, so far as we can see, into the future.

Then, of course, we have our relationships with other countries, and I will just leave that as one factor.

But then, on the other side, we have a tremendous, rapidly-growing labour force and we must find jobs for them. I think for that reason, if I may digress, when you say continentalism is not perhaps a very welcome word, it is because in Canada, at least for me personally, continentalism is almost synonymous with making Canada continue as a hewer of wood and drawer of water. That is something we are trying to get away from.

Then we have what I think is referred to in some countries in Europe as economic imperialism, where your tremendous economy and your multi-national organizations are putting other countries and other governments in jeopardy. Some countries and governments have developed a genuine fear of what is going to be the ultimate result of the impact of these tremendous companies on their economies and on their governments.

Then we have the other problem of the United States extending its law into other countries and into Canada. You said you were a "Canada watcher". Well, if you have been watching you know that quite recently we have had a problem involving a company in Quebec which had made a deal to sell locomotives to Cuba. The law of your country interfered with Canada's sovereignty in that situation. That is an irritant, which, to me, is of doubtful value.

What I am asking you now is to give us your assessment of these forces; tell us which of them you think will be modified in the course of time, and what the modifying factors will be. And, so far as you are able, would you give us your assessment of the result?

Mr. Diebold: That is quite an order. I would start by saying that it has become far more rewarding to be a hewer of wood and drawer of water than it used to be. And I do think that point is quite relevant. We are suddenly seeing that the value of resources, which we may all have been a little bit depreciatory of over a period of time, is great. Therefore, not only are those who have resources going to be more rewarded—immediately in terms of price—but also that the kind of consideration that goes into deciding where one does the development and where one does the processing gets changed. So that I should not have thought this was much of a weakness in the Canadian position. I should have thought the other way around.

Senator Carter: I only mentioned that as pushing us in the direction of nationalism.

Mr. Diebold: Right, except that it is a different kind of nationalism if it reflects the value of something which is now recognized by everybody than if it is based on the attitude that you somehow cannot be dignified if what you produce is "only" raw materials. I think things have turned around. The idea of *industries nobles* is no longer confined to high technology industries; it applies to anything that handles what is scarce.

You have touched on a number of such large issues that I am sure I cannot respond to all of them. On the matter of investment and multi-national corporations and so on, I quite understand why people should worry about having so much of the national economy run by companies which come from across the border. But I think that it is also clear that this relation is basically a development of the fact that our two economies are neighbouring and are so different in size. It has next to nothing to do with any deliberate action of the government of the United States, let alone the wish of the people of the United States to spread some form of imperialism. The question for Canada is on what terms to let people come in and to what end is that a debate you have had in the past, and, so long as I have been aware of it, there have been some people who worried more about this problem than others. Some people have said, "We need the capital", or "we need the jobs". Others have asked, "Can we control this phenomenon?"

I should have thought that the psychology of this matter would have been altered by recent events, at least if anybody believed the mythology that because big American-owned companies had a large stake in Canada's resources, they could dictate what happened to the use of those resources. If anybody believed that simplistic proposition, I don't see how he could explain your recent successful export tax on petroleum. It is perfectly apparent that the control of Canadian resources resides in the government in Ottawa, and not in New York, Houston, or any other American city. You can do what you like with what you have. What you like, and what is wise for you to do, and how you do it, are intra-Canadian questions of very considerable importance, I think, and I can see lots of arguments all the way around on that subject.

The matter of the extension of American legislation to U.S.-owned companies abroad has always been a troublesome subject. You can understand that consistency requires a government, when pursuing a policy, to reach as far as it can. Back in the days when we put great stress on restrictive trade with the Soviet Union, it was natural, though not necessarily proper, for people in Washington to try to make the law go as far as it could in applying to products from all sources. We have overcome a great deal of that difficulty, simply because our laws have caught up with yours in the matter of trade of that kind, though Cuba remains an important exception. On the other hand, when we come to the ban on trade with Rhodesia, this reaching out was not applied to companies in South Africa—which became the biggest leak in Rhodesian sanctions—because the British would not apply the same rules.

Senator Connolly: Would you say that again?

Mr. Diebold: Yes, of course. I am suggesting that up to a point it depends on whether you like the policies or not, whether you think it is right to extend the law to American—or, for that matter, Canadian—companies abroad. In applying the United Nations embargo of trade with Rhodesia, the rule the United States normally follows about subsidiaries was not followed. That was because the British have the policy of not reaching out and trying to control their subsidiaries. Therefore the American rule was not followed in South Africa because it

would have put those particular companies at a serious disadvantage.

There are two sides to this. Anti-trust is a far more complicated subject than trade embargoes. I could make an argument that there have been benefits to foreign economies, including, at least in spots, the Canadian economy, from the fact that American companies abroad are not allowed to do some things that foreign companies might be allowed to do. Now, you will not agree with that, necessarily, or you may say that it is none of the Americans' business; but there we come to a peculiar characteristic of foreign investment. It belongs to two economies and thus to two political entities. We have national sovereignty and international business and as long as we do we are never going to get out of the box, and there will be some conflict. I am rather surprised that we have this difference about Cuba, because I thought that as long ago as the Eisenhower administration there was worked out a reasonable system of consultation. Its basis was that the Americans recognized that it was a mug's game to get into disputes with your best friend about this kind of thing. I do not know enough about the particulars of this case to know whether it was worth fighting about or not.

On the large issues that you mentioned, senator, about the broad political, economic and security relations of the two countries, it seems to me that no fundamental change is to be expected. Still, it is inevitable that there should be some change as the Canadian economy grows and the importance of the Canadian economy in world trade and to the United States increases. I should think that Canadians would come to feel that a shift was in order of the place along the spectrum where the best trade-off could be found for, let us say, the terms on which foreign companies should enter. You might well say, "We do not really need all that capital as badly as we said we needed it 20 years ago, because we have more Canadian capital, and therefore, we will only accept foreign capital on such and such terms or keep it altogether out of certain fields." That sort of thing, it seems to me, will change without necessarily going to extremes.

Calculations about foreign investment will change in the United States, too. There is a lot of questioning in the United States about the traditional position of assuming that there should be governmental support for all American business abroad. That proposition is questioned on the government side, on the business side, and by the public. As part of that debate, I could make a good case for the view that there are quite a lot of issues that should never become issues between the two governments concerning the terms on which American business may come into Canada. Of course, that would not apply to all issues, and the more Canadians say that it is in the national interest to keep out American companies, the more Americans are going to wonder if that means it would be in the American interest to let them in. I do not think that is altogether logical, but I think it is political and will have some influence in Washington.

Another factor changing the calculation is that the amount of foreign direct investment in the United States is increasing very rapidly indeed. You are beginning to get, as I think was entirely predictable the reason—not

very important yet, but perceptible—of asking: “Is it a good idea to have foreigners doing this, that and the other?” This will create a little more understanding of other people's attitudes. It will create issues domestically which will illustrate problems abroad.

There are special problems, I guess, if the investment from abroad comes in forms that are not just normal international business, but which look like foreign government enterprises. Questions have been raised about what is the status of various agencies of Arab countries. Should one distinguish between foreign public funds in general and what might be considered commercial investments owned by foreign governments or sovereigns? I should expect interesting questions to arise about other governmental or quasi-governmental, agencies such as the Canadian Development Corporation, if it wants to take over assets in the United States. I do not think any of these problems are beyond the bounds of what can be settled in an amicable fashion once one has clarified the issues. But these are changing factors, which is what you were asking about.

The Deputy Chairman: Senator Carter, if you do not mind my moving on, I have a long list here, and I will move on next, if I may, to Senator van Roggen, and then we will come back to you, Senator Carter, later.

Senator van Roggen: Mr. Diebold, I come from the other end of the country from my confrere, Senator McElman, and I can echo somewhat his opening remarks. I do not know if our clam chowder is as good, but I might add one thing to these three things he mentioned—namely, free trade, clam chowder and God—and I would add, assistance from Ottawa. At the other end of the country, however, we would say, “Free trade, clam chowder, God—and would Ottawa please leave us alone?” I do not say that unkindly of my Maritime friends, because it is not in any way anyone's fault, but an accident of nature, that we are so endowed with wealth in western Canada that we hardly know what to do with it. It gives us a different approach to some of these matters.

I am thought of by many people as being an out-and-out free trader with the United States, which I am not, quite, because I have been associated with a lot of resolutions passed in party conventions, and one thing and another, which have all had in them—very deliberately—the words “study the subject.”

I would certainly like to look into it carefully, and I will come back to that later because I think this is such a huge subject that it is hard to bring it down to the point of being a simple question for you to deal with.

Coming, first, to Mr. Sharp's paper and the third option, I personally do not think very much of the third option. I think it smacks of running for cover from the big bad American wolf next door and not facing the problem squarely. I do not think, if you analyze the third option, it will take you anywhere other than back to the first option, and maybe that is the best place to be.

The problem we have when we discuss trade, it seems to me, is that we can have all the trade we want in raw materials because nobody has any tariffs against raw materials. The Japanese want them, the Europeans want them and the Americans want them. This is true of trade both ways in most parts of the world. You very seldom find tariffs on raw materials; the tariffs go on when there is some labour added to the raw materials and

then, when you have that value added, your tariffs go on in direct proportion to the value added. So, if you want to expand trade, either multi-nationally or by free trade, with the United States you must first accept the premise that value added or more manufacturing is in itself good. That is an accepted concept in Canada today, and I will stay with that concept for the purpose of my question, although as a Westerner I could easily argue, as you yourself said a few moments ago, quite properly, that raw materials are not such a bad thing to have any more. Manufacturing, by the same token, is something you want to be very careful of because just labour intensive for the sake of labour intensive is not necessarily very good. The most labour-intensive nation in the world must be China or India, and I hope we do not want to emulate their standards of living. So, it is only a very highly sophisticated form of labour and manufacturing you want to get into, which means huge amounts of capital. You do not want to compete with the South Koreans or with Taiwan in the manufacturing of running shoes and ping-pong balls, or anything like that, I would think; and, therefore, you would have to have a highly technological and sophisticated industry if it is to provide you with as good a wage scale as the resource industries provide.

My premise is that only with a very large market available to you can you get into that high technology industry. We cannot do it in Canada with 20 million people and, therefore, we need to have the market of the world or the market of North America available to us.

It seems to me that in the broad look of the world, the raw materials, food and so on available to Europe—which is short of nearly everything you can think of, and Japan has nothing at all except its skilled labour—they are going to be inevitably, over the course of the next generation or two, at a lower wage scale and a lower standard of living than North America where we are blessed with raw materials, energy, food and a high technology.

So I visualize that if Canada wants to get into the higher levels of manufacturing and a highly efficient form of manufacturing with a high technology and high capital investment, we must do so as part of a North American unit.

Take as a precept that I do not think that while tariffs are deemed to be there for Canada's benefit, I believe that it can be argued that the tariffs are things that create our problems and they are there to our detriment—and it could well be that our branch plant economy, our foreign ownership and a lot of the things that we have in Canada and that we do not like are there because of our own design and not because of anything the Americans have imposed on us. So, if you start dismantling these tariffs on manufactured goods in order to penetrate the American market you are going to have a great dislocation in Canada, and not in the United States. They would probably do what we do for that reason.

Now, my question to you as an economist is this—and again I am trying to confine this so that you can answer it as an economist *in vacuo*, as it were: Do you think that Canada would be justified in running the obvious substantial risks—because it is, in a sense, a bit of a blind alley, an unknown street—of trying to develop some form of continentalism with the United

States? And I am going to digress here to say that "continentalism" is a nasty word here because people here only relate it to raw materials, but I think if you are going to talk about continentalism, you are using your raw materials as a bargaining weapon to get in with your manufactured goods, so that maybe it should not be a bad word. Is going down that road, which is an unknown road, with great disruption to our economy, in your judgment worth the benefit—that is to say, are the risks worth the benefit that might well flow from it, as opposed to continuing with option one, namely, continued ad hocery which has not stood us that badly in the past and which I think is equivalent to option three anyway?

Mr. Diebold: The strongest case for the point you are making that Canada can benefit industrially from more free trade with the United States seems to me to rest entirely on Canadian studies, which were very voluminous and very well done. So it is very easy for me on that point. I think it has been shown that there are a number of cases in which a problem of scale has been created by the fact that much of your industrial structure has come out of your policy of imposing tariffs to generate domestic manufacturing. When a point has been reached where you can not, behind those barriers, produce at the most efficient level more specialization requires freer trade. We are talking on North American free trade but the logic would apply equally to more general free trade. Even if we confine ourselves to the north-south aspect, Canada would clearly have substantial benefits in a number of cases provided trade was free both ways, because your point about the structure of the American tariff militating against processing of raw materials in Canada is perfectly valid and there is no excuse for that.

Once one has said that, the next question is. "What about the long run worries?" I take it you are thinking that if there were complete free trade and the United States market continued to be substantially bigger than the Canadian, even if the Canadian were growing faster, —which in population terms is likely, and perhaps in overall terms as well,—there would be problems about where plants would be built. This seems to me to be an undesirable risk but I have no idea whether it is very serious. That probably depends on how the investment decisions are made. If I were a Canadian, I would argue along two different lines. To the extent that non-business factors might come into the investment decisions—if there was any risk that because Washington could lean more heavily on the industry than Ottawa. A plant would be put where it gave Americans employment and not Canadians.

I would have to have built into the system some kind of assurances. It would be a very iffy business to do this. A set of agreements like that accompanying the automobile pact, with assurances about investment in Canada and that sort of thing, are not likely to serve well in the long run even if they were accepted to start with.

The second argument would be that if one is to have an integrated manufacturing industry, then somehow the problems of dealing with the difficulties that would arise from shifts in production would have to be shared by those who share the benefits of the system. As it is now in both our countries, if, as a result of the operation of the free market, dislocation occurs because someone

closes down activities in one place to go elsewhere, there is a national responsibility not very well handled, mind you, but recognized, to cope with the problem.

Senator van Roggen: That is done in the Common Market?

Mr. Diebold: That is right. The alternatives for Canada to taking the risk of free trade with the U.S. are to take the opposite risk of living with the present trade barriers or to see if general free trade can be reached fast enough so that you can achieve the benefits of scale production without having free trade with the United States alone. Part of your tariff problem, as I see it, is that you are taxing your own producers. I know you have provisions in some of your laws for eliminating the tariff on certain types of machinery and so on because it simply raises costs of production and therefore exacerbates the whole problem of the limited market, but that is a pretty hard course to follow if the problem is general.

The final point that creates difficulties here is manufacturing as a creator of employment. There is no doubt in the world that further industrialization of the Canadian economy is natural and will take place in the normal course of events. Some governmental measures will hasten it, some will slow it, some will distort it and some will, perhaps, help give it useful guidance. There is, however, a real problem in linking trade policy to employment. We run into it in the United States when people say we had better put up some tariffs because otherwise we will have more unemployment due to foreign competition. Good economics tells you that, at least in an American-type of economy, that is not a good way to promote employment; you do better to promote employment by management of the economy. What you do with tariffs is to mess up efficiency and create more problems for the future. Trade policy should concern the use of global resources. Something like that must also be true of Canada, but the weight of different parts of the argument may be different simply because foreign trade is so much more important to you. I would not pretend to say in what circumstances, what rate of freeing, what rate of compensating, how much the investment for the change-over would be. That is a matter which requires a close look.

The short answer to your question, however, is that I think that there really are gains to be had in the Canadian economy by further trade liberalization. Whether you want them depends on many other things about which you must worry.

The Deputy Chairman: I must leave the Chair at 12.30, so, with your permission, I will call on Senator Cameron to ask his questions now before taking the Chair.

Senator Cameron: I will make them quite short. First of all, I think that Mr. Diebold's analysis of Mr. Sharp's statement was very good. I was particularly amused at his emphasis that it was vague, deliberately vague, in some cases. I think this was inevitable.

The Deputy Chairman: I do not believe he said "deliberately".

Mr. Diebold: I do not think it was accidental; I am sure the minister knew what he was doing.

Senator Cameron: He did not say that; I did. However, there was something that intrigued me about the discussion of the relationships. He emphasized the importance of the distinctness, and I think this is a very critical element in the relationship between the two countries. No one, certainly on this side of the line, has any hesitancy in agreeing that we must have closer relations with the United States. My question to you is: To what extent is this distinctness recognized in the United States? Because this is crucial to many other relationships.

Mr. Diebold: It is very difficult indeed to generalize about United States awareness of Canadian things. There are three kinds. There is unawareness; there is the sort of generalized awareness that Canada is there and it has certain manifestations; and then there is the somewhat more refined kind of awareness that some people have.

There is no doubt in the world that anyone who addresses himself to the problems of Canada or to relations between the two countries understands not only that there is a distinctness but that it is very important, that there should be one. There could not be a healthy relationship between the United States and Canada if Canadians did not feel this. Therefore Americans, to be aware of this relationship, must feel it.

That is why I thought it a good term. I really do not know anyone who does not want it that way and who does not understand that it is very important to the whole relationship. It is only then that you get to the question of what distinctness means—or requires—in any given set of circumstances. In other words, does distinctness have something to do with free trade or television? Of course it does, but it does not point to any single or clear-cut policy.

I do not like a lot of the blotting-out effects that take place in mass publications, television and radio, the blurring of differences, the standardization. I do not like it when that causes different regions of the United States or parts of the world to lose their special character.

But that sort of thing is not, if I may say so, best dealt with by legislation. Culture is people themselves. I think you import culture more than you export it, and if Canadians have problems they are your own problems, but they are my problems too as one who watches, likes, visits and enjoys Canada. I like distinctness because I think it makes the world a more vivid and interesting place.

To go back to your first question, I guess I would be willing to generalize to the point of saying that more people this year than 20 years ago are conscious of Canada as a distinct entity, that it is there, and will be. I do not think that is the worry.

Senator Cameron: So far as Canada is concerned, we are conscious of the impact of the non-governmental organizations in shaping government policy, but what is a matter of concern is that non-governmental agencies in the United States are having the same effect in shaping American government policy vis-à-vis Canada.

Senator Connolly: Might I ask Senator Cameron if he would elaborate on that? Is he talking, for example, about the banking institutions authorizing loans in Canada and supplying capital?

Senator Cameron: No. I am thinking of the whole climate of the relationship between the two countries, and

the acceptability that governments will come to as a result of feeling that people are concerned. In Canada, particularly, we have this whole question of biculturalism and multiculturalism, which is different from yours. There is no question that it is shaping a lot of our attitudes, vis-à-vis other countries and particularly the United States.

Senator Rowe: Mr. Chairman, I did not hear Senator Cameron's statement prior to the last one. Did Senator Cameron say—I ask this question purely for information—that Canada must have closer ties with the United States?

Senator Cameron: I did not say that we must, but that I think we will. It comes out of this greater understanding, particularly at the non-governmental level.

The Deputy Chairman: Perhaps we might come back to the main question. As I understand it, you asked: What is the comparison between the influence of non-governmental persons and institutions in Canada and the United States?

Mr. Diebold: I can only speak of the influence of American non-governmental bodies on Washington. We must distinguish between such non-governmental institutions as *Time* and the *Reader's Digest* on the one hand, and such non-governmental institutions as the Council on Foreign Relations or the Centre for Canadian Studies at Johns Hopkins on the other. I do not know what influence the latter two have. There is a record of the influence of the first two.

I think this is the kind of issue that is subject to change as the relations of the economies change. Naturally, all of the U.S. business interests which feel they have some problems in Canada on which they are making no headway will try to exercise some influence in Washington. That is the result of having national governments and international business. Yet there are exceptions to my statement. I know a good many businessmen who take the position that they can do better by themselves than with government help, not just in relation to their interests in Canada but to their affairs all over the world. They feel that if they rely too much on Washington they will be caught up in disputes which are not really of their making or be let down when Washington wants to avoid trouble. That view exists side-by-side with the view of a good many American businessmen that the American government does too little for American business interests abroad compared to, say, what is done by the Governments of Germany, France, the United Kingdom, or for that matter, Canada. So there are contrary forces at work. There are quite a number of American businessmen who feel they should come to terms with the Canadian government on their own. However, there are issues at times on which they will try to get help from Washington.

I suggested earlier that in my opinion it will not be considered automatic that government support should be given for everything. There will be doubts, particularly in as intimate a relation as ours, as to whether things ought to be achieved on the level of government to government. I do not think I can go any further on that point, Mr. Chairman. It is not something that is easy

to generalize. People will try to do it. What effect it will have is another question.

Senator Cameron: As far as *Time* is concerned, we hardly exist.

My second question arises out of Senator Carter's question to which you replied—and I am paraphrasing your reply—that we were not doing too badly as hewers of wood and drawers of water for the United States. I may have taken too simplistic an interpretation of your reply. You said it had become quite profitable for us. That is quite true at the present time, and here I find myself in an ambivalent position, because I come from Alberta which has been looked upon for many years down here as a sort of adjunct of Texas.

The Deputy Chairman: Sheiks!

Senator Cameron: That is where my ambivalence comes in. We are now being looked upon as the shiekdom of Alberta, so I am in a very difficult position. Like Senator van Roggen's province, my province is a rich one with tremendous resources.

As I say, your reply to Senator Carter's question that we were not doing too badly as hewers of wood and drawers of water for the United States is quite true, but what happens if the multinational corporations, because of United States policies, decide to close down some plants in Canada, thereby throwing people out of work? This creates tension as far as the government is concerned. For example, Senator Carter made mention of the Michelin project. The Americans said that this was, in effect, dumping by Canadians.

I am curious as to how you rationalize the fact that the exporting of our resources at the present time is a profitable venture with the implicit danger that, unless we control these resources and the labour necessary to operate them, we would be put in a very difficult position in terms of employment.

Mr. Diebold: I did not mean to say that you should not control them. I apologize for not having made myself clear about that. It seems to me that if you find it economic to develop processing and manufacturing industries in addition to the resources, then that is the way it will be. You ask what would happen if an American company closed down a plant, perhaps to do something some place else. Suppose it were a Canadian company? There must be a reason for closing down. If it is because a plant no longer pays, this is often an awkward social problem. A society must have a way of coping with such issues. Maybe the plant should go on operating, but if we were to suspend the bankruptcy laws I do not think we would get much economic progress after about ten years. There has to be change or the economy does not work.

However, if the change were in response to the kind of thing I tried to characterize when I spoke of an American company closing down a plant in Canada instead of one in the United States, not for business reasons but because it was under some sort of pressure, maybe from the government, maybe from a union, then I think you have to counter that pressure by your own pressure. That could be part of the terms on which you let them in. You might say, "If you are going to close

down you must give people this kind of notice, so much severance pay, and so on." The problem is, of course, the familiar one. If the terms are too stiff at the beginning investors will not come in.

Senator Laird: Due to the lateness of the hour, I will confine myself to one question.

Last week, in response to a question about the auto pact, Mr. Sharp made the rather startling statement that he thought we should never negotiate a trade arrangement for one product only, but presumably for several products at a time. This was startling enough to make the headlines, I noticed, in the *Toronto Star*. Obviously he had in mind that if you make a trade arrangement on one product, you get pressure from that group that is hard to resist, and we are not in an equal position with the United States; therefore, our objective should be to negotiate for several products.

My question is simply this: What would be the reaction of American officialdom, and also the American public, to an attempt so to do?

Mr. Diebold: To negotiate about several products at once?

Senator Laird: Yes.

Mr. Diebold: Obviously the first question would be what combination. There must be some rationale for putting them together rather than having just one. I do not know what Mr. Sharp had in mind. As you know, part of the problem in the auto pact is whether it covers enough products. What about used cars, replacement parts and tires? Defining a product or an industry is a problem too. Let us say he had the kind of general thought you have in mind, that bargaining about one industry is too concentrated. Many people I know who have experience in international trade negotiations greatly prefer to have several different things to deal with at the same time. Then the balance which is necessary, the perceived balance of advantage to two sides, does not have to come in one thing. You want this, I want that, and so we can trade. I do not know whether that is what Mr. Sharp had in mind. But if so I see no problem. Of course, if you come in with four products in which free trade is to the advantage only of Canada and all the adjustment is on the American side, you are going to end up with eight products or no products, I guess.

Apart from that, I think some clearer view of the ultimate shape of the automobile agreement is probably necessary before you can expect any positive response in the United States to any product or industry approach. I do not want to embark on a detailed discussion, I feel there has been much exaggeration of the issues, but there is no doubt that the auto pact is something less than a perfect instrument. Therefore let us clear that one up before we get into too many others.

There is a lot of interest in the industry by industry approach to trade negotiations more generally, than just with Canada. Sometimes the approach is ambiguous. The trade bill, when it went through the House of Representatives was in some ways improved over the Administration's bill, and in some ways, not. One new element introduced was the concept that in negotiating about non-tariff barriers, there must be sector-by-sector

reciprocity. There is some fuzziness as to what "sectors" are and also "reciprocity." Some people say the provision is not serious but others are worried because when you begin to narrow the area of bargaining, it becomes more difficult to see where a balance can be struck.

The Deputy Chairman: Honourable senators, may I say to Mr. Diebold that I know Senator Cameron will express the thanks of the committee to him for his appearance here and the excellent job he has done. If a few senators have to leave, I hope Mr. Diebold will understand that this is not an indication of disinterest. There are other commitments that some senators have. Senator Cameron will take the chair.

Senator Donald Cameron (*Acting Chairman*) in the Chair.

The Acting Chairman: Senator Rowe.

Senator Rowe: Most of the things I had in mind to comment on have been dealt with already by Mr. Diebold. There are two rather superficial questions that remain in my mind. One of these has been answered partly by Mr. Diebold.

I was intrigued by your statement that there was a "high degree"—that is the term you need—of free trade between Canada and the United States. I knew there was some, but I did not realize you could use the term "high degree." Would you offhand have a rough arithmetical figure for it?

Mr. Diebold: I would have a very rough one. I have a bad head for figures. My recollection is that it is well over 50 per cent. Does anybody know it? It is a figure I got worked out some years ago, that is, well over 50 per cent, more like 60 per cent.

Senator Connolly: I think it probably was.

Mr. Diebold: I wrote it down and I can find it, but I do not have it on me.

Senator Rowe: It would be interesting to some of us if we had that figure broken down in respect of raw materials, on the one side, and manufactured goods, on the other. For example, I am sure that the iron that we ship, 100 per cent of the iron ore, goes to the United States.

Senator Connolly: No, no.

Senator Rowe: A great deal of it goes—

Senator Connolly: No, it doesn't. Some of it goes to Europe and some to Japan.

Senator Rowe: I thought that was the iron ore company, but that is immaterial. There are two consortiums that are developing the iron ore there. I thought that one of them said they send their ore almost entirely to the United States.

The point is that we had a lot going in and I am sure there is no duty or tariff or excise on it. The same would apply to a lot of other things—our paper, for example.

Mr. Diebold: My figure came from the days when we had no tariff on oil, only quotas. We may have to re-do the number there.

Senator Rowe: If we could have that figure broken down into the two categories, it would be useful. Somebody must have it.

Senator Connolly: It might be something for the staff here to get.

The Acting Chairman: Apropos of that, I do not think the average Canadian has any idea that there is that much free trade between the two countries.

Senator Rowe: That is precisely the point I was making, that I had heard the term "high degree."

The other question I have is this—and it is not meant to be rhetorical: You said, Mr. Diebold, that events last year in respect of petroleum—and I am paraphrasing your comments now—had disproved the myth that the great American corporations controlled or held the Canadian development in their hands. You said that events have shown that, no matter what was proposed south of the border, the final disposition lay with the Canadian government.

Assuming that is so—and I am sure it is to a large degree—would you be prepared to make the same statement in respect of American corporations which have branches here in Canada making manufactured goods?

Mr. Diebold: You have a good point. It is quite a different matter because the activity is quite different. You said you didn't make your point rhetorical. My point was meant to be a little rhetorical. I said that one of the easy pictures of what multinational corporations mean to people is that "these guys take my resources and they do with them as they like." That is what I say has been disproved in the case of the oil companies.

With manufacturing industry it is a little harder to know quite how to take that. One makes the statement; but what is it they are doing? They are employing Canadian labour on Canadian soil; maybe they are using Canadian materials; maybe they are using Canadian machinery, et cetera. One does not know. They are producing something and they are selling. They can stop it or they can start it. That is perfectly true.

If they were making "widgets" in Winnipeg and you did not want them to export the "widgets", you could stop the export of that just as you could stop the export of the oil. They could then say, "Well, we will now stop the production." I suppose in a sense the oil companies could have said, "We will stop the production and go home," but, obviously, for good reasons they did not. It is true that the loss of the widget maker would be less than the loss of the oil producer if he went home. The bargaining position is somewhat different if you are not a resource-bound industry, but, you know, you would have to ask, "Why he would do that?" What would he do it for? He is there for his benefit. You have let him come for some benefit that you thought he brought. Maybe one of you is wrong. Maybe one of you is getting more or less out of the deal and maybe the conditions have been changed, but if there is no mutual benefit then one of you is not going to go on doing that, I don't think. Whether you are a private entrepreneur or whether you are government, you are going to stop this at some point.

I think there is a problem if you come to me and say that you badly need employment-producing factories of such and such a sort in some part of the province of Que-

bec and the only people who are interested in going in there are one American company. Well, if you are in that position you are going to have to induce them, probably, if they have any alternative. That is a very different kind of thing. But if all you are saying is, "We are opening it up. We want investment no matter where it comes from. Whether it comes from Toronto or the United States or whether it comes from Europe or comes from Japan is indifferent to us so long as it produces jobs in that part of Quebec"—if you are saying that, then you are in a good bargaining position.

I am sorry I got a little off your point about control, but, as I say, I think you are right that the situation is quite different because we are talking about a different sort of activity.

Senator Rowe: I have a final question on that. You remember, of course, the confrontation, I suppose you would put it, which developed in the Eisenhower days. In fact, you referred to it earlier. We had a somewhat similar situation in recent months in respect of Cuba. Has that same situation obtained vis-à-vis American investments in, say, England and Italy?

Mr. Diebold: Yes, indeed. We had all kinds of trouble during the fifties and sixties with almost every western European government you want to name, usually about trade with the communist countries. For a short period the laws were more or less uniform and then the Europeans were promoting East-West trade at a time when the U.S. was remaining more restrictive. One of the worst disputes we had, in which managers risked going to jail in two countries, was with the French government about a shipment of trucks to China. That was some time ago. Oh, yes, we have had the same problems. We are not picking on the Canadians.

Senator Connolly: Mr. Diebold, early in your opening remarks you used the expression "dilute the Canada-U.S. trade relationship". With respect to the question of diluting, or diverting Canadian trade from the United States elsewhere, again I quote: "It seems to me to be a mug's game." That is a negative thrust, and I really perhaps would rather say it this way, that I really do not think these three options which we have before us are mutually exclusive. It seems to me that they are not options. I think they are modalities of a course of dealing between interested traders on both sides of the border, and while governments can influence certain aspects of those relationships, you are probably going to have a great deal of each of these options in the actual course of dealings. What I prefer to say—and perhaps Mr. Diebold would comment on this—is that I prefer to see on the part of Canada a more positive thrust. In other words, perhaps, to try to get the best of both worlds, to maximize our trade relationships and our economic activity in respect of the United States—and I think any trader does this—but at the same time to try to find new markets elsewhere with a view to building our foreign trade, and perhaps our trade with the United States, but to increase it in other markets, like the Community, if it survives the onslaught of the last few weeks, or with Japan. Perhaps you would like to comment on that.

Mr. Diebold: Surely. I think that that effort, to diversify, is one that has been part of Canadian policy for a

long time, and I think you are absolutely right, sir, to distinguish between the positive diversification of the sort you are describing, and the idea you referred to when you used the words, "diverting trade."

Senator Connolly: Or diluting.

Mr. Diebold: When I used the word "diluting" I was thinking of a bit more than trade, but that is neither here nor there. However, if I am not mistaken, "diverting" was the word Mr. Diefenbaker used when he came into office and said he was going to divert 15 per cent of Canada's trade from the United States to the rest of the world. I think the sort of difficulty and troublesomeness that that concept led to was due to the weakness that you are describing. I think what you say is exactly right, that an increased development of Canada's trade with the rest of the world is very much in Canada's interest. It is natural, I would say, as an economist. It is also very central to the point I was making when I said that, although Mr. Sharp did not explore it in detail, he was right to say that the global setting has a great deal to do with what the options mean. One of the three points at the end of my opening statement stressed the interest that I believe Canada has in a general movement toward multilateralism and away from blocism. Otherwise you cannot develop the diversification that is desirable from your point of view, and, I think, ours as well. By "diluting,"—perhaps it was a bad word—I meant only to remove some of the strain. If everybody is dealing with everybody you are not penned in, two by two.

Senator Connolly: I think, in deference to Mr. Diefenbaker, I am not too sure that he meant literally what came out of that statement. I have never been able to clear the point up myself, but I do not think he actually really believed that we should go as far as to attempt to divert. I think probably he had the positive idea of diversification rather than diversion in his mind. However, the record is there, and it is for him to explain it, not me.

The other question is quite different from any of the questions that have been asked, I think, and I think it is a consideration that we should bear in mind in these investigations that we make.

Our study of Canada-United States relations is bound to be looked upon, I think, certainly by people in the Third World, who are interested, as another attempt on the part of the rich to get richer. Perhaps we justify the idea of promoting trade and enlarging trade and developing commercial interests in different parts of the world, first of all, because it is wise national policy to strengthen the economy and to broaden it and to get growth. Perhaps it is also justifiable on a larger basis, on the ground that the West must protect itself by remaining strong. But I would like to ask Mr. Diebold whether in these discussions, which we will be conducting over a long period of time, we should, in his view, keep in mind also the repercussions that might develop in the Third World if we in North America try to expand our two big economies in Canada and the United States.

When you hear the reports of the meetings on international monetary policy, you inevitably hear remarks about the effect of international monetary arrangements on the underdeveloped world. Just to take a specific example, I understand that with the increase in the cost

of Middle East oil to the underdeveloped world, the whole value of foreign aid is automatically wiped out.

It seems to me that in all of our discussions and all our anxieties to strengthen and develop our two economies, we have to keep in mind what our responsibilities are in respect of the Third World, and what, in effect and in reality, our own development will do to those very sensitive economies.

Mr. Diebold: I certainly agree with that. I think the problems of coping with the difficulties of the poorer parts of the world are probably going to increase. We both separately recognize it and have done something about it in the past. I guess I would say a couple of different things. One is that if we don't handle our affairs on the North American Continent well, and if we divert a lot of our attention to disputes amongst ourselves about things that could be otherwise settled, we are likely to do less well rather than better in dealing with the problems of the Third World. I think there is a very specific aspect that is usually overlooked when we talk about special trading arrangements and free trade, or something of this sort, between the United States and Canada. It was easy for us to say in the case of the automobile pact that third parties were hardly affected at all, but it begins to be a little difficult when you get to some other products to see whether there are not some other countries that might be hurt by our mutual preferential bargains. The one who might most often be affected is Mexico. Very little attention has been paid to this aspect of Canadian-U.S. relation and I think it is worth some attention. Mention of Mexico is a good example of how difficult it is to generalize about our relations with the poorer countries. Mexico is no longer a country that needs foreign aid or a great deal of other kinds of assistance. It is a rapidly growing, increasingly important country. We do not have very good arrangements to bring countries like Mexico and Brazil into fuller participation in international co-operation. This is one of the reasons, I think, that the multilateral approach and not the bloc approach is terribly important in terms of the future.

On the matter of oil, you are quite right that for some countries the higher cost has wiped out the value of aid. Aid is not so terribly great in too many cases, I am afraid. With or without aid the impact of higher costs for fuel and fertilizer is very serious. Some countries have had some offsetting advantages through the increase in raw material prices, but the disconcerting facts that showed up in a couple of recent studies is that after the oil price increase the source of the greatest trouble for many of the poorer countries, notably India, is the increase in the price of wheat. You and we and other wheat producers are getting some offset to our higher import bills by payments from the poor countries. This is the kind of problem we can do something about if we want to.

I might say we have not talked very much this morning about food. It goes right along with oil and raw materials as one of the big problems in which North America has a different position from Western Europe, Japan or the remainder of the world.

However, I agree with you entirely, sir, that as you go on with this you must always ask yourself what is

the bearing of United States-Canadian relations on the third world? There is, indeed, a question about inducing the rich under-developed countries, Arab and non-Arab, to take on new responsibilities to match their new wealth and power. They must find a place, whether it is in monetary arrangements or other matters.

Senator Connolly: Perhaps it is a little hard to say it this way, but the Arabs and those in the Middle East who have the oil have said, why should they not increase their prices because they are paying so much more for wheat, for food and commodities of that nature? However, I have heard others say, no, these countries are fundamentally underdeveloped and it happens that they have a commodity needed by everyone else. What we have been doing is to develop them, I suppose, and they have received some benefits from the foreign aid programs, just as have some of the countries in Africa which are not in as strategic positions as those in the Middle East.

I suppose the question is a logical one: If we continue building up those countries—it is a terribly selfish statement to make—will they ultimately, when they are in a position such as some of the Arab countries are to control a strategic resource, turn upon the West, perhaps with the connivance of anti-western powers such as Russia or China? To leave the impression that we should let them go their own way, let them starve and let them die is not the attitude that anyone would take. We hope—perhaps this comes back to your simple point that you work for international co-operation in this field with a view to building up these countries—to help their peoples, but at the same time to endeavour to make them realize that they have some responsibility for international co-operation.

Mr. Diebold: Something along those lines must certainly be correct. The problem is thrust on us so suddenly that I do not have a sense that people are sure of their touch, but there certainly is groping in that direction.

Senator Connolly: I think we are all groping.

Senator van Roggen: I have one question, Mr. Chairman. I hope it will not involve too long an answer, although I admit it is difficult. Will multi-national wheat trade negotiation win the day, or will the blocs win it? I ask that question in full realization that I am not just speaking of trade, but the non-tariff barriers which you mentioned.

Another question which is important to me is the enforceability. It seems to me that if the non-tariff barriers are the main problem, then on a multi-national basis it is a hopeless task to police them, whereas in the case of a deal within the European Common Market it can be policed a little more easily. If we had one in North America, we could police it a little easier. In other words, will the blocs, no matter how much we bring down trade barriers of whatever nature on a multi-national basis, not basically still exist, and if we do not join them ourselves will we not be left out in the cold?

Mr. Diebold: That possibility certainly comes to mind when we consider some of the things that the Europeans were working on until their attention was diverted to

other things more recently. These were a series of things concerning European-wide corporations, the development of the computer industry in Europe, merging government procurement onto a Community basis instead of a national basis, and other matters summed up as being an industrial policy for Europe. Progress in these matters would indeed alter the trade barrier situation, because like the original creation of the Common Market they would remove an internal barrier but leave—and maybe not necessarily worsen—a barrier between members and non-members. You could regard this as an improvement—because you have widened the area of free trade—or as a deterioration because it sharpens the difference, the discrimination against the outsider. Taken in combination with problems about the regulation of investment, and whether, for example, a European computer industry means a European-owned computer industry or a European-located computer industry, which might be partly owned outside, you then got into the kind of problems which I think you have in mind.

I believe you are right, that there will continue to be less than global co-operation on these matters. However, Japan, we, you and the Western Europeans affect one another more than most countries. The Europeans represent the only true bloc. They are not doing very well at present. While the issues I have been discussing are not the main source of their difficulty, there are quite a few things among these which could be done better if we were all to do them without wating to go through a separate European stage.

The most obvious is the monetary issue. The Europeans have not done very well among themselves, but even if they had, it would not have solved very much. The monetary issues are inherently global, or at least as wide as those countries wishing to participate, and you cannot settle them on a limited bloc basis. Other matters are different. You have a mixed situation in which some things could be agreed on a broad basis—say in the OECD—while the Europeans went ahead on a bloc basis to do others.

Whether there is an important offsetting United States-Canadian gain when the Europeans do this depends, it seems to me, on circumstance. I do not think it is an easy thing to generalize.

Senator van Roggen: It might eventually mean the whole of the Western industrialized world against everyone else.

Mr. Diebold: That raises the question of whether closer cooperation among the OECD countries is good or bad for the rest of the world. I could write a scenario to go either way; the choice is very important.

Senator Carter: Could I get a brief reaction to a problem facing Canada at the present time? We have some cheap gas in the West at the present time. What should we do with it? Should we sell it to the United States, should we keep it for ourselves, or should we sell it to the United States and buy your expensive gas in say 10 or 15 years time?

Mr. Diebold: I do not know enough about the situation to provide an answer. You may have it, but can you keep it?

Senator Carter: We could keep it. That is a decision which we have to make before too long.

Mr. Diebold: Suppose you follow the plain old economic rule and say you will sell it in the best market. What would happen then?

Senator Carter: There is only one market for it, and that is the United States. We can pipe it down. We can hold it for future use, where we have cheap gas for cheap energy in say 10 years time. If we sold it to the United States within the next 10 years we would have to buy your expensive gas from Alaska or some other place. What are the pros and cons of that?

Mr. Diebold: I do not believe there is going to be any cheap gas in 10 years time. If you keep it for 10 years, it will then be no longer cheap. So the question of whether you are better off by using it in 10 years time or by selling it now is almost an accounting problem.

Senator van Roggen: We put an export tax on oil. Oil was not on long-term contract, but gas is. We must honour our contracts. We sell our gas on contracts, the signing of which enabled us to build the pipeline. When the contracts come up for renewal we shall sell it at higher prices. But you have to be careful about breaching those contracts. The Province of British Columbia used a very clever mechanism. It said that it must be 105 per cent of what they charged British Columbia consumers, so they raised the rate to the British Columbia consumers in order to get more money from the United States. But that is different from oil, because you do not have the contracts to cope with.

Senator McElman: Earlier on, Mr. Diebold, you remarked that in very recent times there has been a much greater awareness on the part of Americans of Canada and Canadians. Since all matters such as trade, and so forth, work best within a good climate of feeling, is that greater awareness regarded in favourable terms or unfavourable terms over these very recent times?

Mr. Diebold: Interestingly enough, I cannot think of any example of unfavourable terms. I am a little bit surprised, because I thought that there would have been some grumbling and grouching about oil and things of that sort. Perhaps there has been and it has not reached my ears. I am certainly not aware of it.

I was not thinking in terms of as recently as the last 18 months, but rather over the last five years. In my view there has been a sharper awareness of Canada among people in the United States over the last five years than there was, say, for the 20 years previous. Perhaps I am wrong. This is a subjective judgment. Perhaps I have just been talking to the wrong people.

I do not think there is much doubt that the Vietnam war had a good deal to do with this. While I am sure that in some places in the United States there are people who are taking negative views of Canada, I do not find them to any great degree. I think it is more the other side of the coin. I really did not mean anything more than awareness, plus or minus. I think it is inevitable that when more people become aware of something, the more good and bad some people will see in it. I hope you

will not be sensitive to what is bound to be an increase in the criticism that will eventually come as a result of this increased awareness.

The Acting Chairman: Mr. Diebold, this has been an excellent discussion. It has served to underline the magnitude of the assignment we have undertaken for this year. There are many facets of the discussion which we could have pursued for the whole period of time. Your presence here today has been a very welcome one. The organization of which you are a part has a very warm following in Canada, and your participation with us this morning has been most helpful. It has underlined the need for the type of thing we have been talking about, a greater

dialogue between Americans and Canadians than we have had in the past. There is some urgency to that.

On behalf of my colleagues on the committee and myself, I would like to express our deep appreciation to you for having taken the time to appear before us and answer our questions in the very frank manner in which you have. There are many areas where we might not agree entirely with what you have said, but it is out of those nuances of disagreement that we will arrive at something that is better for all concerned.

Mr. Diebold: As I said at the beginning, Mr. Chairman, I knew it was going to be interesting for me. I look forward to reading your report.

The Committee adjourned.

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SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 3

THURSDAY, MAY 2, 1974

Third Proceedings Respecting:

Canadian Relations with the
United States

(Witnesses:—See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John A. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.
(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, May 2, 1974.

(5)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 9.35 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Connolly (*Ottawa West*), Croll, Flynn, Grosart, Lafond, Lapointe, Macnaughton, McElman, McNamara, Sparrow and Yuzyk. (14)

Present but not of the Committee: The Honourable Senators Haig, Hays and Perrault. (3)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Professor Harry Johnson, Professor of Economics, University of Chicago, Chicago, U.S.A.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 2, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, this morning the committee is pleased to welcome Dr. Harry Johnson, Professor of Economics at the University of Chicago and at the London School of Economics. I may also say we are delighted to have Mrs. Johnson with us this morning. You are most welcome, Mrs. Johnson.

Dr. Johnson is recognized as one of the world's leading economists and has written and lectured widely on all aspects of that subject. He has been an early advocate of the reduction or elimination of tariff barriers between the United States and Canada and has generally advocated closer economic integration between the two countries.

Born in Toronto—and I understand that Senator Croll is an old friend of the family—he holds degrees from universities in Canada, the United Kingdom and the United States. His publications include *The Canadian Quandary*, *Canada in a Changing World Economy*, *International Trade and Economic Growth*, *The World Economy at the Crossroads*, as well as numerous articles in professional economic journals.

We are very happy that Dr. Johnson's busy schedule between London and Chicago has permitted him to come before us today. I understand he has just come from Chicago to this nice warm climate here in Ottawa that we have specially arranged for him. Members of this committee who were members of the Senate Finance Committee in 1971 will recall his appearance in Ottawa at that time.

I have discussed with Dr. Johnson the method of procedure and he has indicated he would like to make an introductory statement, although it is not a prepared one. I have asked Senator Macnaughton, and he has agreed, to lead the questioning, and I have an indication also that Senator Grosart would like to participate. You are most welcome, sir, and the floor is yours.

Dr. Harry Johnson, Professor of Economics, University of Chicago and The London School of Economics: Thank you, Mr. Chairman.

Honourable senators, I do have a small physical problem such that it may be necessary for me to use this

microphone. If I am not audible at the back, please indicate so, because I am only too aware of the shortcomings of my voice at this point.

I am very pleased to be here this morning. As a student at Toronto, every once in a while the question of Senate reform came up, as it does in the Senate, and I am very pleased at the way in which the Canadian Senate has adapted itself towards fulfilling a useful and important function in Canadian life. Consequently I am always very happy whenever I can be of assistance to come here and give the benefit of whatever I have in the way of knowledge to the Senate. I feel that it is becoming a much more important body and that it is essential for Canada as a nation to have a group which can look at Canadian problems as Canadians and not simply as representatives of particular cities.

In introducing me, the chairman said I had long advocated closer relations with the United States. I am rather unhappy with that description. Many years ago, about 1960, in fact, I was asked to do some thinking about Canada's role in the world trading system and I came to the conclusion that there should be a movement towards closer relations with the United States. But that was very much as a second best. At that time I was examining the question of the future development of world trade and I could see that the European Economic Community was going to be a divisive force in the world. I myself believe in free trade without any particular commitment as to partners is the best policy, but as an observer of politics I have noticed that the public and the politicians do not like to offer something for what they think is nothing. There must be some agreement with some other country to sanctify the idea of improving things for yourself, and trade policy is always thought of in terms of relations with particular other countries.

It seemed to me that there was no future for Canada in any attempt to go back to the British Commonwealth as a trading framework. And that Britain itself, as it actually has done, would opt for Europe in a way that would not leave any particular room for Canada, and that Canada was too small economically to pursue the kinds of policies that had been pursued up to that time profitably for Canada, and I felt profitably for Canadians. Given that you have to have an agreement with somebody, the only one that was obviously going to be to Canada's advantage was the possibility of an agreement with the United States. But that was not in any sense a feeling that we must surrender national sovereignty or anything of that kind. Rather my feeling was one which I still believe very strongly, that the future of Canada lies in being as rich and powerful economically as possible. Our Achilles heel in the past has very often been that we opt for a lower standard of

living and when that gets too tough we lose people. Anything that could raise the Canadian standard of living and give Canadians more resources to spend on being themselves would be an advantage. It is from that standpoint that I look at trade policy. I do not look at trade policy as a question of political involvement, but rather the opposite, that we can only be an independent nation if we can afford to pay our own way, and if we can afford to risk something on pursuing our own objectives. The worst situation for us is to be a very small poor country right next to a rich one. We would be much better off, and better off than they are, if we were a rich country on a rich continent and able to carry our own responsibilities.

It is in that sense that I have been what I believe people call a continentalist. I do not like that kind of language. It seems to me that sending people to college for four years just so that they can learn to divide the world into continentalists and others is a waste of educational investment. I do not like the phrase; either it is a truism—because we are on a continent, we cannot move off it; the best chance for us is as an efficient and profitable development of the continent as possible—or else it means that somehow I want to throw away Canadian individuality in favour of being an American, and I certainly do not want that. I have lived in the United States a long time now. I lived in the United Kingdom a long time before that. I never wanted to give up my Canadian citizenship, and I never felt obliged to. I would regard it as a real loss, which I probably would not want to take, if somebody insisted I had to. On the other hand, I do not think that Canadian individuality is well served by the effort to be independent just like that without some cause, particularly as our tendency in Canada is to look for independence only in terms of being different from the United States. It is not real individuality to be dressed like everybody else, or to be not dressed like everybody else. Real individuality is choosing your own dress to suit yourself.

The meetings of this committee are occurring at a very crucial time in the evolution of the structure of the world economy as I see it. The thinking that led me into the views I had was related to the development of the European Economic Community. It seemed as little as two years ago that that development was going through. However, the difficulties within the European Economic Community and the effects of the oil crisis have led to a shake-up of the whole international situation, which I think is at a crucial point at which a committee of this kind should be taking thought of what we do next. There is a tremendous danger of carrying on into a new situation policies that would have been appropriate to an old one. That may well apply to the question of free trade with the United States. In fact, I would myself say at the present time that the optimal strategy for Canada might well be to try to steer the whole ballgame back towards more multilateralism. The movement towards regionalism seems to be in some prospect of breaking down. The European countries, faced with a choice between being a Europe and being themselves, have been themselves, attractive or not as that may be. The United States, on the other hand, has reacted by pulling itself out of the commitments that it previously had to the world economy. At the same time, the admin-

istration has done many important things towards cooling off world political tensions. Relations with China and previous to that the accommodation with the Russians have meant that we have been moving into a more peaceful world in which much of the thinking that was done in the immediate post-war period about the shape of the world and about where the problems were has changed.

I think it would be a mistake if Canadian thinking were to stay with the 1960s situation when we are moving into the 1970s and 1980s situations. In that circumstance it may well be that the idea of regional arrangements which was sparked off by the European Economic Community is no longer appropriate. It may be possible to get back to what I think is the prime interest of Canada, which is as peaceful a world and as liberal a world as possible.

I presume, since I am invited to come here and follow Mr. Sharp, I should get myself involved in an argument I have had with him for many, many years, in which I am supposed to be an ardent continentalist and he is a wise Canadian. I do not like that role very much. I always lose in a competition of that kind. My main worry about the kind of policies suggested in his essay, which was a well written and thoughtful one, is that when we start using big adjectives and adverbs and nouns like "independent", "independence" and so on, the first thing we do, having patted ourselves on the back or the chest, wherever we can reach, for our greatness and independence, is that we then proceed to be about as small-minded as we possibly can. That is the real problem I find with the desire for Canadian independence as such.

I think Canadians on the whole are probably at least as good a people as most in their willingness to bear international burdens, to cooperate, but when it gets down to national independence it usually turns out to be a matter of snatching a little something or other from the Americans in the hope that they won't notice, and if they do notice we then start talking about national independence. That does not seem to me as a Canadian to be a very desirable kind of role for us to have; that is, of making big speeches advertising our independence, then taking policy actions that require that we get something for nothing, and then protesting about national independence when we are found out.

I think we have a major role in the world for our size; we have a political personality in the world that suits us, and it is not that common that we should be ashamed of it. However, when we start talking about national independence, self-determination and things like that, we really do not know what we mean, and we use the language to disguise from ourselves the fact that we are really snatching the advantages we get from being a small country next to a big one.

The issues involved there are things which change every month or two months. I note, from 30 years of observing Canadian policy, that there is always a new issue to be anti-American about. I certainly do not try to keep a mental record of everything there is to argue about, though in the discussion, to the best of my knowledge, which is not all that great, I am prepared to comment on any issue that anyone wishes to raise.

The Chairman: Thank you very much, Dr. Johnson.

Senator Macnaughton: Mr. Chairman, I want, on behalf of our fellow members, to express to Dr. Johnson our appreciation at his coming here this morning and his extremely provocative statements so far.

I know that the purpose of the meeting today is discussion, but you do not mind cut and thrust. I think you used the wrong adjective with regard to the "wise" Mr. Sharp and running yourself down. It is quite obvious that you have a great deal of experience and a great deal of knowledge. On the other hand, we do not have a great deal of experience necessary in your field, and we are after knowledge. I am sure you do not mind if we try to attack you, because that is the way we get to the bottom of things.

You referred to the national independence of Canadians; you said that we snatch from the United States any advantage we can get, that we are getting something for nothing, we raise self-determination whenever they want something from us, that we are anti-American. I think that is a lot of hog-wash, to put it mildly. First of all, it is not true. Have we not a right to be nationally independent? Aren't we a Canadian people? Do we have to ape our neighbours to the south, no matter how nice they are? Incidentally, I have an American wife and three American kids, but I still remember the revolution and how so many Canadians came north for certain ideals. That is on the political side, and perhaps it may be unfair to attack you along that line.

I cannot accept your definition that good Canadians should become mirrors of Americans. It is just awful to think about it in manner, in political thought, in daily activities, in their worship of money, in their worship of power, in their political system, in their economic system, in their social system.

In my opinion, we have much to offer to the people to the south, rather than endeavouring to steal all their defects and the public image which they certainly create outside their own country. This is a little hard on my wife and children, but—

The Chairman: They will not read the record!

Senator Macnaughton: No, they will not read the record. I am glad to see that you support the Senate and I am delighted that you have not written a book, so far, about its proposed abolition.

You made other comments which are just extraordinary: "The European Common Market is a divisive force in trade." Well, there are two sides to that argument. "There is no future for Canada in the Commonwealth." Then we should return to what? The U.S.A., I suppose. We are a small country against a great big rich and powerful country. "Our trade policy is not political." If it is not political, what is the purpose of having existed for over 100 years? I have not belonged to the Conservative Party in the past, but there is such a thing as "the national dream." That is just an outright denial of everything you say. However, you are the economist and I am just an amateur.

It is true, is it not, to say that you are a great believer in free trade and that you wish to see, if not integration,

certainly much more free trade between our two countries?

Dr. Johnson: May I raise a small point, senator? I am a free trader, but that does not necessarily imply integration with the United States, because any such arrangement involves free trade in one sense, but discrimination against outsiders in the other. I made it very clear that my views on relations with the United States are in a particular political context in the world, in which I consider it desirable for Canada to move to free trade. The political process, however, dictates that this must be done by agreement with some other country. My concern is about which countries it is worth while to consider as possible partners and where might we gain something and where might we very well lose?

Senator Macnaughton: That is the purport of my question: How would you propose to establish free trade between our two countries? What would you do with the existing Canadian industrial establishment? What effect would it have on the processing of raw materials? What do you say with regard to the dislocation of the Canadian employment scene? What safeguards for Canadian financial institutions, newspapers, magazines and all the rest of it would be provided? How would you protect or include Canadian agriculture? Last, but not least, what would happen to our continental resources, or the resources in Canada? Would we just hand them on a platter to the U.S.A.? What about investment in those resources and the processing of them? Would we ship all our resources down to the U.S.A.? What about eventual depletion of Canadian resources? Would we not be just a backyard full of nice commodities for the U.S.A.? How would you propose this integration?

Dr. Johnson: Senator, I was beginning to assume that this was Sunday, rather than Thursday, by the manner in which you are carrying on this discussion. I find it difficult to cope with these points because of the way you are presenting them, with such a mixture of emotional feeling and lack of analysis.

Take one issue, which is not the major one, I presume, to you, but the question of processing materials. The main reason for materials being exported in the raw state is because of the American tariff on the finished goods. I would predict that if we were to have free trade, genuinely free trade I mean, it would be found much more economical to process up here. The minute you turn a hand towards processing the materials, you face a higher tariff. One of the effects of the American tariff which we would eliminate by free trade in a comprehensive fashion is precisely this tendency as, indeed, is true of the tariffs of all countries to the extent that they have the power to do it, to keep the later stages of manufacture to themselves and import only the raw materials. This is basically the characteristic of every tariff structure of every country. It is just our misfortune that we are resource-rich and at the receiving end of this, but that is because of the American tariff. However, given that there is the American tariff, there is no particular point in saying well, we are going to process anyway and bear the costs of producing and at such a low price we can overcome the American tariff. That tariff existing, the economic thing to do is to process in the United

States. If we wish to do it here, we have two choices: One is that we subsidize it. In other words, we buy our way past the American tariffs and, while I am as independent a Canadian as you, I do not particularly fancy spending my money to buy our way into the American market. The second approach would be to attempt to negotiate that tariff away. I would like to see it negotiated away as part of a world negotiation. I do not particularly see an advantage to us in having a purely American relationship if we can achieve a world one. However, the rest of the world, as was the case until recently and still may be the case, was not interested in that. If the Europeans want to keep the rest of the world out and if we as a country have the major disadvantage of being small in terms of our own market and having resources which require a world market, then in my opinion free trade with the United States is the right policy. As I said repeatedly this morning, I do not know, under present circumstances, whether that kind of thinking, which grew out of the whole post-war trend of international relations, is valid now. I would not like, either, to let you get away with the idea that somehow I am in favour of us becoming American. I am not, but I think we are much more likely to want to become Americans—and this has been documented by past Canadian history—if our independence costs us so much. There comes a time when the average man would rather eat better than be independent. Independence usually means not that the average man is independent, but that you and the leaders of the country can be independent in your actions. However, when the average man finds that it is costing him too much in terms of the standard of living he begins to vote with his feet. Our whole history of population development here has been to some extent serving as a half-way house to which Europeans frightened of America may come. Then they find they are not so frightened after all and can cope, so they move on to where the big money is. I would like to see some of the big money in Canada.

Senator Macnaughton: Well, doctor, that is very interesting and I appreciate your reply. If I mix politics and economics, they must be mixed to a certain degree because this country decided many years ago—it may now have changed its direction—that we enter into these economic pictures.

Could I suggest to you that Mr. Sharp's option paper discards the idea of free trade with the United States on four grounds? These are that it would be irreversible for Canada, once we embark upon it and would lead to full customs or economic union. Again, it might encourage and intensify the polarization of the world into trading blocs and, indeed, it might eventually entail some form of political union. Do you agree or disagree?

Dr. Johnson: Would you like me to comment on those points?

Senator Macnaughton: Yes, indeed.

Dr. Johnson: As far as the irreversibility is concerned, first of all we see in what is going on in Britain that something that the Europeans regard as irreversible the British are now not regarding as irreversible. The legal argument as to Britain's position in the Common Market at the present time is whether Britain can leave it or

not. The British think they can, but the others say they cannot. My bet would be that if the British want to go out, they can. However, that irreversibility argument in my opinion cuts both ways. It is in our favour, because much of our economic problem has been that the United States policy has changed. Very often the United States policy has changed on a global basis, without really any thought being given to the impact on Canada. Our problem in the 1930s was very largely that. We have experienced that, in much smaller ways fortunately, at various points in the post-war period. This is evidenced by the application of the balance of payments controls to the special kind of investment relation between Canada and the United States and so on.

Irreversibility is probably one of the factors we might like to have on the part of the United States. The trouble with them is that they are not entirely calculable. The more calculable they are, the better for us. We have large numbers of people in this country trying to make a living and some of them are pretty hard hit when the United States changes its policy, in a way the United States does not even know it is happening.

So, first, irreversibility in international politics is one of those things and just a question of degree. I used to be a frequent visitor to Pakistan, where union of the east and west wings was regarded as absolutely necessary. Well, now there are two different countries, because the pressure became intolerable and there were military engagements and so on. However, it certainly is possible to change anything you wish to if people feel strongly enough. It seems to be rather presumptuous on the part of Mr. Sharp and others to say we cannot do anything because it would bind future generations. This implies that the future generations will be more stupid than the present, or that we are to legislate for them. Either way it implies that Canadians of the future will not be as smart as they are now. That kind of argument does not seem to make much sense.

With regard to full customs union, I do not know about that. My attitude is that we had moved very far on the world scene toward lower tariffs anyway. The major argument about being involved in a customs union is that you take on a batch of protective measures that suit the other guy but not you. The possibility of losing by that kind of thing is dependent on how high those barriers are and how special are those protective measures. It is a technical kind of question to get into. I do not think it would help to get into it.

I do not think that is a major worry for us, given there has been this movement toward freer trade.

Let me pick up the next question—polarization. That represents, I think, 1960's thinking being transferred to the 1970s.

Firstly, it greatly overstates Canada's importance. The Canadian attitude on the Common Market had no influence whatever on anyone. The factors which influenced that, on the one hand, was the desire of the Europeans to have a Common Market, and they are quite prepared to shuck off their colonies and former colonies. The British themselves are willing to do that. One of the things that caused consternation throughout the former British Empire was the willingness of Britain to get

herself advantages at the expense of countries which thought they had binding obligations.

The other factor was American desires based on a view of the world as divided by the Cold War. Two things have happened since then. One is that the Cold War situation has changed completely. A lot of the logic behind the Common Market and other things has disappeared. The idea that the Russians and the Americans would be locked at each other's throats, that it took European civilization to civilize those two barbarians, has been reversed. Those two barbarians have done a lot better at running the world without war than the Europeans ever did, and they will continue to do that.

The importance of building Europe as a counterweight to those two barbarian forces seems to me now to be nonsense.

Anyway, Canada is not going to have an influence one way or the other on polarization if other countries, bigger and more determined, have the determination to become more polarized.

I do not think polarization will be a problem, because the European Common Market itself is falling apart. Its agricultural policy, which is supposed to cement everything together, fell apart. It is still in a mess. Its force for political union has gone. Its common currency proposal, which was to be the next step, has disappeared because they cannot manage it. The oil crisis showed that when it is a question of giving up oil for someone else, or getting it for yourself and the devil take the hindmost, then let the other guys be the hindmost, and so forth.

Finally, we come to political union. It is complete nonsense to say that economic union leads to political union. The facts of history for hundreds of years show that there have been free trade arrangements without there being political union. And there have been lots of political unions without free trade arrangements.

My attitude is that we are most likely to go for political union when the world is so divided that we as a nation, which exports and trades in many different kinds of things, find ourselves cramped and our population suffering from discrimination. We will then throw in the towel and say, "If we either have to starve to death up here or join the United States and be rich, we will join the United States." If we do not have that alternative, we won't, if we can be reasonably well off without becoming American.

I see no forces in Canadian society that are strongly in favour of becoming American. I see no forces in the United States that want Canada to be part of the United States. I can see political union with the United States only as a result of a desperate effort by Canadians to save something for themselves out of this disintegrating world.

That is why I think that in a sense free trade is the best guarantee we have against that, because free trade will guarantee us the opportunity to markets which we might otherwise not have without meeting the cost of political union in order to gain access. When it is a choice between starving to death and giving up some independence, Canadians are not unique in preferring

to live, and live reasonably well, rather than demonstrate for a political principle.

Senator Macnaughton: Doctor, I am afraid you are beginning to shake the foundations of the Department of External Affairs. Perhaps they will not read these remarks either. How do you consider the new Foreign Investment Review Act? Do you think it will be an effective way of controlling the growth of foreign ownership in Canada?

Dr. Johnson: I am not particularly familiar with that legislation. I must plead illness as partial excuse. The other is that I find it very difficult, reading Canadian history in the last few years, to know just what is going on. I read newspaper reports that we are going to do something, and we do not do it; and then we are going to do something else, and we do not do it.

As an economist, I am not particularly concerned about this foreign ownership business. I think we did get straightened out in Canada on that to some extent some years ago when we started off, you will recall, thinking that the problem of foreign ownership was that they were going to do bad things for us economically. That got straightened out as a result of the work of a lot of Canadian economists researching this question and seeing what the facts were, whether American enterprise discriminated against employing Canadians, and so forth; and they came up with a pretty clean bill of health.

At that point the American government decided to use its corporations as a means of implementing its balance of payments policy, and the complaints had a new lease on life on that.

It seems to me that the major issue in foreign investment is really this question of use by the home government politically of the corporations for its own means rather than economic ones.

Your attitude is probably different from mine. I do not want to impute something to you. As a boy who grew up in Toronto, it did not really make much difference to me if it was Timothy Eaton or some American company that was running the big store. I did not have shares in it, and I did not have much chance of getting any. What I wanted was good service. If the Canadians were not prepared to provide it and the Americans were, fine, it would not make much difference to me.

I think that this concern about ownership is a mixture of two kinds of ideas, both of which are wrong. The first idea is simply that a nice clean-cut young Canadian is going to be a nicer fellow to do business with than the same crew-cut American type. I do not believe that at all. When the chips are down in business they have to be businesslike.

The other is a mixture of strange ideas about the nature of society, which come to us essentially not from our own country but from European ideas. There is the idea that somehow ownership is tremendous power.

I have met many people who owned businesses who were sweating blood all the time. They did not have much power, they had a lot of responsibility. The notion that somehow ownership conveys tremendous power does not really impress me as being very realistic. There is the belief that our society is divided into a few who

own things and a lot who don't and that a few guys like myself who are radical minority would like to own and run them instead. I do not like that kind of politics. It is an elitist kind of politics which has nothing to do with the common man. It is just a question of who, presumably, of two small groups will run things for the rest of the people. I do not believe it is realistic and I do not believe that is the kind of country we want. But we still have that kind of tradition, and part of it is our own weakness as an ex-colonial country in not doing our own thinking. We import ideas and those ideas do not necessarily fit our situation.

Again we go back to the question that you mentioned about Canada being settled by the losing side of the American Revolution. To some extent that is true. But a lot of Canadians were the losing side in the class war in England, not of the American Revolution.

My family were not Empire Loyalists. They were refugees from Scotland and Ireland. They came here because they wanted a better chance than they got out of the British class system. I am not entirely sure that the implantation of Empire Loyalists did not do something to hold Canada in the British class system relationship, which is not too good either socially or politically.

Senator Macnaughton: We are getting back to the political side again. I have one final question. As a result of the recent oil state moves, would you think that the position of Canada has been very materially improved vis-à-vis the United States?

Dr. Johnson: Yes, indeed. I would say the position of Canada for Canadians has been vastly improved because we turn out to be well supplied with oil. Perhaps we have done some foolish things with that asset. If we get something that becomes valuable there is no particular reason why you should make it cheap to Canadians and expensive to other people. It is an expensive thing, and you should treat it that way. But all countries are alike in not doing that. They try to respond to the increased value of something by cushioning some of their own people from having to recognize this value.

Our position has improved. This is only part of a long process. I feel, just because I have grown up myself so to speak in the same sort of historical process. In the 1930s we felt pretty poorly about Canada. Here we were, we had all this wheat and nobody wanted to buy it, we didn't have oil and we felt ourselves disadvantaged compared to other countries. We got our first big shot when the atom bomb was invented and we could brag that we have uranium. Then we developed steel and iron and oil and we found that what we used to say about Canada was true, that it was a country with tremendous natural resources. That has been one of our big strengths.

Any demonstration that our possession of resources gives us importance and income in the world is a good thing for us, because in the long run it is going to wear down that inferiority complex we have got because we are not British and we are not American. It is a tremendous load to the average Canadian, particularly when he has been taught by people to believe it. I do not believe it. As a modernized liberalized Canadian, I don't believe that we are disadvantaged in this country from not being British and having a British class system, or from not

being American and having tremendous power. I like things the way they are. But many of our people think somehow we are nationally disadvantaged by not being that, by not being European or something, not having an empire behind us. I think we have got a great advantage and the more it can be shown that we have an advantage the better.

Senator Macnaughton: Thank you, sir.

Senator Grosart: Mr. Chairman, perhaps I should apologize right now as I shall have to leave very shortly to go to a meeting of another committee. I would like to ask Dr. Johnson a few questions, particularly since the last time we were together he was questioning a paper that I gave. However, I am not taking a critical position at this time, Dr. Johnson.

You seem to indicate that Canada is in a position where we may be faced with this alternative, of starving to death or integrating more with the United States. As an economist, do you see any reasons why this may be more imminent at the present time than it has been over, say, the last hundred years?

Dr. Johnson: Senator, I have not really made myself clear, apparently. What I said was that the pressures for unification of the United States and Canada have always come at times when Canada has been suffering tremendously economically. It has been as an alternative to economic ruin as seen by some people, that has led Canadians to talk about unification with the United States. I think that both the political appeal and the danger of political unification are very much a myth. I am often wondering why Canadians either assume that other Canadians want so much to join with the United States or assume that the United States wants to have us. The United States does not want to have us and certainly if I were the American president—not this one but some other one—I would not want to have us either. When we get down to the economic problem we begin to think of ways out and contemplate joining the United States. My argument is that the richer we are and the better we are organized, the less chance there is that anybody in this country would ever want to join the United States or ever feel that they have to join the United States. Contrary to the idea that becoming richer will make us want to become more American, I think it will make us want to become Americans less, because we can afford to be ourselves. It is when we are really up against it economically, when we have got lots of unemployed as we had in the 1930s, or away back in the middle of the nineteenth century when we had a movement towards joining the United States again, and again it was a matter of American trade policy or American depression.

I do not think that depression is going to be a big problem in the future, but trade policy might be. I see free trade with the United States, or did see it, as a way by which we could avoid them passing their burdens on to us, because they could pass the burdens on and think they are passing them on to the world as a whole and they all come home to us and when we go down to Washington and complain they say they did not realize that they were going to do us that harm.

Senator Grosart: I was not thinking of the alternative of joining the United States; I was thinking of the alternative of more integration. We have had reciprocity movements at various times, almost in cycles, in Canada. What I am asking you is, as an economist do you see the present or comparable circumstances, Canada vis-à-vis the United States, as vital or more pressing reasons now for integration than at any time in our history?

Dr. Johnson: No, senator. On the contrary, at the present time one of our problems in forming views about this kind of thing is that the world changes and we think of the world as it was before. As I said earlier on, I came to the idea of integration not with any great happiness but as the best alternative open to us in a particular situation in a world in which there was a strong trend developing towards regionalism and that the other kinds of regions that we might be interested in would not be advantageous to us.

I spoke of Europe and also the Commonwealth. The Commonwealth used to be a fairly complementary relationship between countries like Canada, Australia, South Africa which produced food and which imported manufactures from Britain. All of these have now become industrial powers. We and the Australians used to think of ourselves as being primarily food producers but in fact our industrial structure is very close in its composition, in terms of the number of people who are actually involved in agriculture compared to those involved in industry, to that of the European countries. In fact, we have fewer farmers than some of the major European countries, simply because we have gone further with mechanization.

So my feeling is that at the present time, with the world being shaken up through the oil crisis, we should start thinking again and think of what other ways might the world be organized.

The idea of integration with the United States is a product of a particular historical period when the world seemed to be squeezing into economic blocs. Now that is up for grabs and it is possible that Canadian policy might do something to move it towards what we would all prefer a system which did not involve Canada in being too dependent on the United States. But we can only do that on the basis of having a world system to deal with.

Senator Grosart: Are you really saying that we are facing a trade bloc war or something equivalent to a war, and that we had better join one of them and the best one to join is the United States—and when I say “join” I mean get into closer relation?

Dr. Johnson: No. On the contrary, senator, my feeling on the point is that up until the last year and a half we did seem to be marching towards regionalization and blocism, with the British going into the Common Market, with the Americans turning protectionist and with movements towards bloc arrangements in other parts of the world like Asia and Latin America it did seem that blocs was the way the world was going to be organized, and for us there was not much in any of these other blocs, and a lot was to be said for coming to terms with the United States. But my feeling now is that, after the last year and a half, that danger has receded a great deal, because the Europeans are not able to manage a bloc.

They still think nationally and when the chips are down they are prepared to use their own individual power to pull off a deal for themselves and not to recognize any real responsibility to each other. They have not been able to run a common currency, their agricultural policy is in a mess, on oil they were not able to devise a common policy, each has gone off in his own direction. This creates some possibility that the movement towards regionalism may be halted. The question then is, do we have individual anarchy and anomie, and so on, or do we move back into the idea of a world system rather than a bloc system.

I am trying to argue this morning that Canadian thinking ought to be thinking not in terms of the bloc tendencies of up to a few years ago and casting a policy against that background, but thinking in terms of what is happening now and what Canada's best interest ought to be in this situation.

Senator Grosart: Do you not see the possibility of the bloc system hanging over us like the Sword of Damocles? The mere fact that the European Community is experiencing some internal trouble at the moment does not seem to make it inevitable that we will not return to the high optimism that the world had about the European Community a few years ago.

Dr. Johnson: I think that is extremely unlikely, for two reasons. If you look at the history of the Common Market you can see General de Gaulle really put paid to the Common Market in a long run sense, because he killed off the idea of European political unification in favour of a club of imperial powers, although he did not put it that way. He put it as a “Europe des patries”, of fatherlands, or something like that. Given that General de Gaulle is still with us in the sense that the upper French civil servants and politicians are de Gaullists in their thinking, that killed off the idea of European unity as a political force.

If we look at developments in world politics in terms of relations between the Americans and the Russians, and still more recently relations between the Americans and the Chinese, there is really no point in a European political union these days, it does not have any function other than to keep these countries influential, and I am not sure I would like to see them very influential in the world; they are typically dead. They are not outward looking like we are; they are inward looking, either because they are living in a dead era of history, or because, like the Germans and Italians, they have been defeated a couple of times and they are not interested in this world politics game any more. You spoke about the Sword of Damocles. I think the problem is that the thread broke on the Sword of Damocles, the thing fell and nobody was underneath it, and nobody has managed to hang it up again where it can be a danger.

Senator Grosart: In the event of free trade arrangements coming about between Canada and the United States, what kind of dislocations do you see in our economy, and how do you think they could be handled? I refer, of course, to such things as a movement away from the centralization of industrial production in the middle, and so on.

Dr. Johnson: By and large, there is a limit to what policy can do about this kind of thing. One of the facts we have to recognize is that the centre of economic gravity in the United States has shifted very rapidly westward. For that reason we have a western White House, for example. There is a great deal of American industry now on the west coast that is influential. That is a long run factor important for Canadians to think about, because among other things it implies that Ontario and Quebec will no longer be right next to the American industrial heartland; places like British Columbia and Alberta may well have better advantages than Ontario and Quebec industry in the long run. I cannot give a calendar time to this, but it seems to me that there are big changes occurring, and likely to continue to occur, in American population location and so on, which have implications for Canada.

You asked about the question of how we adjust to the effects of, say, closer trade with the United States, or, as I like to put it rather more openly, freer trade generally. I would like to recall that Canada has played a fairly important part in a development that is from an economic point of view one of the keys to this. The world in general has a very antiquated view of how to run a free enterprise system. Such a system involves people taking decisions on the basis of information which cannot be complete. The old view of capitalism was that if the worker took a job in an industry and the industry folded up 25 years later, that was just too bad; he was on the shelf, too bad. We now think that human life is more valuable than that, and we have started to look at ways of retraining people, relocating people. Canada has, I think, been in the forefront of that kind of thing, compared with some of the European countries, where the old kind of thinking still holds.

That really is the solution. We have to stop viewing our human beings as specialized machines that are brought up for a certain purpose and either continue that purpose or go on the scrapheap, depending on how things turn out. We must regard people as resources of a fairly high degree of flexibility; they are valuable and we should be willing to move them, train them and retrain them. After all, we do not usually buy an automobile under the impression that it will run for 45 years. We turn out workers and put them to jobs; we turn out college students, who have 45 years to go between the time they graduate and the time they retire. We are not prepared to trust an automobile to run for 45 years without some help, some repairs and some maintenance. I do not see why we should treat people that way. It will take a positive attitude towards people instead of a negative attitude towards change.

Senator Grosart: People, particularly in the labour force, appear to have considerably less mobility than the automobile.

Dr. Johnson: I have never seen an automobile running by itself.

Senator Lapointe: What would happen to the United States subsidiaries in Canada if there was a free trade arrangement? Would they be closed? What would we do with them?

Dr. Johnson: That is a problem that produced some surprises as a result of the auto agreement. To some extent people who criticize the presence of subsidiaries do so in unawareness of the fact that subsidiaries are often creating make-work executive jobs for Canadian educated people. Some people in the automobile industry were quite surprised when they found that integration in the automobile industry meant they no longer needed a duplicate head office in Canada. I would expect that if you had free trade you would get a fair amount of rationalization of management, but I do not think that would necessarily be to Canada's disadvantage. If you really had the thing set up in an irreversible way, then there are many arguments for having management located in Canada rather than in the United States. Also, there would be Canadian companies—and there are plenty of those that operate in the United States—which would no longer need to have a management set-up in the United States to match its Canadian set-up. You would get a sorting out that would cut both ways. I myself do not get a lot of pleasure out of the idea that a lot of second rate Canadians are being hired as duplicate managers up here to do the job that better men down there can do, particularly as many of the better men are Canadians too. I am a little suspicious of arguments that object to changes which are for the good of the average Canadian, on the ground that they will mean less cushy jobs for well-educated well-off Canadians.

I cannot really predict. The only thing I can say is that it would be wrong to look at the thing in terms of the complete wiping out of American subsidiaries in Canada or anything of that kind. We have advantages that we could exploit if we had access to the United States. We have some advantages in terms of not being so crowded, having lots of lovely lake country for the summers. You would be surprised how miserable Americans in my part of the United States are in the summer, with very few lakes, and being so crowded. The opportunity to have a nice summer cottage in Canada is a great attraction for many of those people, or would be if they knew about it, which fortunately for us they do not all know about.

I am not sure I have answered the question. I have done the best I can with the ideas I have on it, and with what I interpret to be your major meaning. If there is something else, I will be only too glad to zero in more if I can.

Senator Carter: Many of my questions have been partially covered. I would like to start with the question raised by Senator Macnaughton. I think you answered pretty fully all of the points raised by Senator Macnaughton with the exception of that on resources. He was asked what would happen to our resources. Part of our concern now is that too many of our resources are owned outside of Canada, and to some extent are not subject to Canadian control. How do you see this being worked out in a freer trade atmosphere?

Dr. Johnson: You have mixed up two different questions. The question of ownership and the question of control of natural resources are quite separate. Governments retain powers to exercise control over the use of resources, although others own them. Many of the

problems which derive from ownership seem to me to be matters of ownership by someone, not ownership by Americans rather than by Canadians. I can think of cases in the past when Canadians have been just as bad in managing resources from the long-run Canadian standpoint as any foreigner could be. In fact, sometimes one suspects that Canadians are more willing to exploit their fellow citizens than foreigners would be. So the question of control and the question of ownership seem to be quite different.

On the control side we face a serious problem in the nature of the country as having a federal constitution. We have a tension between the provinces which want the development of the population and to get those resources out of the ground and into the market as fast as they can in order to build this population and political power. On the other hand we have the federal government, which is attempting to give some sort of rationale to the use of these resources.

I am not sure that the political structure of Canada makes it possible to speak very intelligently of resources policy. You will know more about that than I, the tensions between provincial prime ministers and the federal government over the use of the resources and sale abroad versus sale at home and so on. From that standpoint I think the problem is really our Canadian problem. If we did move to freer trade with the United States, this would change the profitability as it appeared to owners of resources and the exportation of those resources at certain times. It is quite possible that the private decisions about when to exploit resources would not be in the long-run interest of Canada. It seems to me, however, that is a question of attempting to define the long-run interest of Canada. It does not help much to identify the question of resource management, which is a very difficult question, in a world in which technology changes and in which resources may become useless by holding because something else is discovered to substitute for them. We can think, for example, of the value of Peruvian guano before chemical fertilizers were invented. These mountains of bird droppings were a tremendous natural resource. I do not imagine, however, that anyone would be too pleased to have mountains of bird droppings around now, because fertilizer can be produced much more easily through chemical processes. So it may well be that some of the things we think of as important resources now may well turn out not to be resources at all, but just excess baggage in the future.

We also have the final problem that we are learning continuously about substances that pollute our environment or endanger our lives. It may be that some resources we think at the present time are tremendously valuable will turn out to be things we will not dare to touch. Therefore those are the real problems, in my opinion. If you can solve them, you will evolve policies in which trade will still be the best policy, but you will not necessarily allow the owners, whether they are Canadian citizens or not, to do as they wish with the resources.

Senator Carter: I was not so interested in that and apparently did not make myself clear. A sovereign country must have an industrial strategy, which must change from time to time to meet the requirements of the country. You said earlier that if we had free trade and did away

with tariffs, there would be more manufacturing in Canada. I am not so sure that that is absolutely true. It may be so with regard to some things, but I would not say it would be generally true. Would you say that instead of taking our iron ore out of Labrador and carting it down to the United States they would move their plants up to Labrador?

Dr. Johnson: Well, I do not know whether they would move to Labrador or not. I do not know many Canadians who would like to move to Labrador either, if they could sit down here and have someone else fetch the ore out.

The Chairman: Senator Carter is from Newfoundland.

Dr. Johnson: I am sorry; I do not wish to be disrespectful to any Canadian, no matter where he lives.

However, I am a little troubled by the phrase "industrial strategy". I have seen a lot of industrial strategy, particularly in the United Kingdom. Industrial strategy usually consists mainly of deciding you do not like what businessmen wish to do and stopping it, or possibly granting them subsidies for doing something they do not do. It has never seemed to have been a great success. It seems to me that your best strategy as far as industry is concerned is not deciding what businessmen should do, but attempting to train them to be better businessmen. We know from studies carried out by the Economic Council of Canada that Canadian businessmen tend to be less well educated in terms of formal years of schooling than Americans and that this seems to have an effect on the productivity of Canadian industry. We also know, at least I know from knowing Canadians, that many Canadians are limited by the fact that they do not identify with Canada, but with a particular province or even a particular city. It is quite possible that by training Canadians to be more willing to move around Canada in addition to training them to be more rational in their analysis of business problems we will in the long run develop industry more effectively than by attempting to decide what industry should do and what it should not do.

The Chairman: If I may interject, Dr. Johnson, I think that your last point was very well taken. If I may say so, you certainly do identify yourself with Toronto.

Dr. Johnson: I do not actually. My first teaching job was in Nova Scotia.

The Chairman: You may not realize it.

Senator Carter: To take another example—and I am probably not so well informed as I should be in my premise on this, but Senator Cameron can correct me if I am wrong: We have gas in Canada in the northern areas and it must be sold in volume to compensate for its development. We do not have that market in Canada, and the only place we can sell such quantities is to the south. However, we now have a certain amount of gas in Alberta which can be developed and moved cheaply. You spoke of industrial strategy, and this is what I mean: Should the provincial government or the federal government encourage the development of this cheap gas now and its sale to our neighbours to the south at a relatively low price? Then, eventually, we have to buy their expensive gas from Alaska to replace ours. That is one facet

of industrial strategy. You did not think much of the phrase, but here is a concrete problem: What should be done in such a case? What is your opinion as an economist?

Dr. Johnson: The first thing I would do in that case would be to hire six economists, two Canadian and four from some other place, just to keep them honest.

Suppose I develop cheap gas now and import replacement gas later at a higher price and, for example, suppose I were to put the money into IBM or Xerox stock, I might well wind up better off 20 years from now than if I kept that gas in the ground or developed it more slowly. We must view resources in terms of time having a price and money being of greater value if it is in our pocket now than delivered 20 years ahead.

The political process usually does not allocate any value to time, which means that it does not properly deal with the question of whether it is worth obtaining a higher price later or to obtain cash now that we can invest. Now, the oil countries have experienced this problem and have begun to think about it. Sometimes the thinking is fairly primitive. Some of them have territories with which they can do nothing but produce oil, so they intend to plough the proceeds of the oil back into educating their people and developing their skills. Even if it is going to cost you a lot to import gas 25 years from now, it may be well worthwhile to get the money from selling it properly now and investing it. You might develop a better-educated population, say, if you put it into education, or you might develop some other resource that people can use which would pay the cost of expensive oil. You have to think of this in terms of alternatives and possibilities, and assign quite a lot of careful attention to this question of time.

Senator Carter: You have to think also in terms of shrinking resources everywhere.

Dr. Johnson: Any particular resource is likely to shrink.

Senator Carter: But these are non-renewable resources.

Dr. Johnson: If you want to be careful, you invest money instead of spending it. The early settlement of this part of Canada involved settlers cutting down a few trees and floating them down to Montreal to sell to the British Navy. In doing that they were destroying two or three hundred years of natural environment. But they needed to do that in order to get themselves the cash to set up their farms.

Nowadays you look around and see people busy buying trees and planting them. They can afford to do that because they transformed a resource in the form of trees into a more useful resource in the form of money which they made grow by working, and they were then able to buy back the kind of environment they started with and still be better off.

You have to consider that kind of thing. Individual resources, after all, are not valuable in themselves. They are valuable for the use of man. Provided you keep investing money in something else to replace something that you used to have but which has been used up, you are not worse off.

Senator Carter: You could save your money and invest it in nuclear plant to maintain your energy. If I follow your reasoning and your thesis this morning, Canada should never have come into existence, because the natural flow of trade is north and south. We have just listened to Pierre Berton's program, "The National Dream." The subject of the series was designed particularly to counteract these forces and to make Canada a separate country.

Dr. Johnson: It is much more complicated than that. I was a student of Harold Adams Innas, one of the greatest original minds Canada has ever produced. One of his basic points is that within certain limits the north-south thing is not right. If you look at the St. Lawrence, it is a natural seaway east and west.

The problem as Innas saw it was that the Hudson River was a competitor, encouraging a north-south movement. You only got one-third of the way across the continent westwards by water, which was the cheapest method of transport. We spent a lot of resources extending that by developing the transcontinental railway but we ran up against natural barriers. It is not really true to say it is only north-south. There is also east-west, but the east-west is not across the continent. It is from the east side of the continent toward Europe, which is where the country started from really, or from the West Coast, and possibly extending as far as Alberta—but you have the mountains in the way—out to the Pacific.

We have many different pressures pointing in different directions. We cannot really say north and south, or that the country should never really have existed. Actually it is a politician's dream, because the country existed long before it had a government. If we left it up to the Senate of Canada now it might not be allowed to exist, but it worked and prospered and became a government.

Senator Carter: Senator Grosart raised the question of people. The interests of the unions in the United States in connection with the automobile industry are almost directly opposite to those of automobile workers in Canada. How would that be affected?

Dr. Johnson: I would hope—and knowing some Canadian union leaders, I would have a fair amount of confidence—they would not be taken in by the American desire for brotherhood at the expense of jobs. Canadian labour is in competition with American labour. American labour talks a lot about the rights of workers, and so on, but a lot of its activity is designed to over-price foreign labour so that foreign labour cannot compete with it.

I think our unions are smart enough to see that. They have, of course, the problem that they do not want their labour to get too cheap or they will lose in relation to Canadian employers.

But I think that under a free trade situation we would have the possibility of raising Canadian wages, which I think would be a good thing in itself. Having a better-off working population is a good thing. There would be room for having a rise in wages and still being competitive.

If we look at the operations of American unions in, say, the West Indies, as well as in Canada, part of their interest has always been to try to price the labour in

those places out of the market in competition with them. If you look at the international labour organizations, which they have been very active in, part of the effect of those has been to make life more difficult for low-wage labour in places like Hong Kong, Singapore and Africa, under the guise of making life better for those guys. You don't guarantee them the jobs. You guarantee that if they could get a job they would be well paid. But wages are so high that they cannot get the job in the first place. That is not a contribution to human welfare.

Senator Croll: I presume that the Auto Pact is, in your view, an example of what would happen under what we call free trade?

Dr. Johnson: No.

Senator Croll: All right, show me the difference.

Dr. Johnson: The Auto Agreement seems to me to be a reflection of some of the worst things that Canada does. We did not really have free trade so far as Canadian consumers were concerned. We were keeping up the price of automobiles for Canadian consumers and giving companies an incentive to build factories and employ labour. That is not free trade.

Also, as it worked out, Canada started this whole thing and the United States paid the international price of it. The way it worked, Canada did not seem to be violating any international rules in getting, in effect, guaranteed employment for Canadian labour at the expense essentially of European and other automobile labour.

The United States was in technical violation of the rules of GATT in that it was discriminating in favour of Canada as opposed to other countries.

It was very definitely in violation of the rules of non-discrimination. The only way it got out of that was by arguing that since these companies were American companies, it really was not discrimination in favour of Canada, it was legitimate business on behalf of American companies.

This reflects something I said earlier on. It involved the United States carrying the can for violation of the principles of free trade while Canada got the benefit. I do not regard that as being a desirable situation.

Nor have I ever regarded the business of producing automobiles as necessarily man's highest contribution to civilization. I know that all countries I have visited, top and bottom, regard the automobile industry as a sign of industrial competence, but economically you are buying yourself fluctuating employment, soul-destroying kinds of work in assembly lines, and all sort of things which are not attractive in themselves, in order to have the advantage of saying, "That is a Canadian car being driven down the street."

Senator Croll: On the other side, the largest employer of labour in the United States is the automobile industry.

Dr. Johnson: That is no particular credit to anyone.

Senator Croll: Whether it is a credit or not, let us take a look at the Auto Pact for a moment. You said the consumer was at some disadvantage, that no advantage came to him; but to thousands of employees an advantage

did come to them when their rates were brought up to parity with American rates.

Dr. Johnson: That is all very well if you want to identify your social welfare with the happiness of automobile workers.

Senator Croll: But automobile workers are not a group aside. I was taking it as one example. I was going to bring in some other industries. I rather thought that it appeared to be an example of two countries doing some sort of trade—it might be considered free trade—and that there were some advantages and disadvantages. It cannot always be advantageous to both.

Dr. Johnson: That particular agreement gives you an appearance of free trade, but it is not too beneficial from the standpoint of the Canadian consumer, who is the person who is supposed to benefit from the trade. My second point is that I do not particularly see human happiness as consistent with everyone having a job in the automobile industry. In fact, many of the young people who go out protesting, protest against the soullessness of producing automobiles. I think they are right.

My third point is that it is not the automobile industry, or the government which encourages the automobile industry, that really provides jobs. What provides jobs is the government's willingness to provide a climate and level of aggregate demand that will provide jobs.

Senator Croll: A former Canadian, who is almost as distinguished as you are—Professor Galbraith—speaking yesterday in Calgary before the energy people, said that the trouble with our economy, and the reason for our inflation, was the fact that 50 per cent of what it is all about is in the hands of the national and multinational organizations, and they control as much of the economy as does the government.

Dr. Johnson: I would not want to put myself within even talking distance of Professor Galbraith as a great man, but as an economist I have no doubts at all as to who the economists of the world are, and he is not one of them. That is the fallacy of Galbraithian thinking about companies, and also of worries about Canadian ownership, companies do not raise prices because of sheer devilment, because they want to raise hell for the government, they raise prices because the government is pursuing an inflationary policy. It is visible when a company raises prices, but it is not visible when the price of hired help or haircuts or something like that goes up. You do not start lambasting the barbers because a haircut costs more than it used to, but you do lambaste the company. That is purely an accident. The cost of haircuts can rise and hurt you just as much, proportionately, as the cost of automobiles, but you do not notice it when the cost of haircuts goes up, you do not assume that some malevolent group is busily putting up the price of haircuts, just to get after you and they do this to spite the government. You notice it when a company has decided to raise prices, as the automobile companies do, because they take a decision on prices which go across the board and is very visible. It appears that the automobile companies decided out of sheer viciousness to raise prices. With the price of haircuts, no one in particular decided it, it just happened that

every barber simultaneously decided it was time to raise the price of haircuts.

I do not believe that any approach to questions of inflation which concentrates on finding a villain in the head office of General Motors is an intelligent approach to this question. I testified on this three years ago, as Senator Aird has pointed out, in a committee on inflation. It seems to me to be a complete distraction. I could if I wanted to, or at least if I felt malevolent enough, give some ideas on why Galbraith feels this way about big companies but it certainly is not economics and it really is not very helpful.

Senator Croll: Perhaps he is not convincing, but a great number of people read what he says. I am not questioning, and I know, your competence in the economic field and I will stay with it.

You talked about the Common Market and you indicated how you feel it is falling apart. What assurance could there be, if we integrated as you suggest with the Americans, that in the same way there was any performance that we could depend on?

Let me give you an example of what often happened in this country—and you are aware of it. A great number of purchasers of articles, particularly in the merchandise field, would have a man or a supplier over a long period of time, and then suddenly one morning the purchaser would say, "I am prepared to pay only X number of dollars for what you have been supplying to me," and the supplier would say, "I cannot do business on that basis; it is not possible. Could you give me thirty days in which to straighten it out?" Then he cannot straighten it out, he is gone. You know that happened very frequently, not only in Canada, but it has happened in the United States. Now, we are integrated with the United States and one morning we have one of the Texas group who suddenly says: "That's for you, Canada"—another Connally—and where are we?

Dr. Johnson: I am touched by the story but I don't feel particularly persuaded by the likelihood of it. It seems to me that our chances of waking up in the morning with that kind of position are minus. We have had it demonstrated plenty of times that with the tariffs on both sides and without Canada having any particular claim on the United States, and our own attitude is a matter of a variable, we have had plenty of cases of that happening to us without free trade. So why should the possibility of free trade suddenly stir up all these chances. You have already referred to the fact of businesses having this experience before.

If it is going to rain on some days in the week, regardless of what you do, then why tell me that if I don't go to church on Sunday I am going to be particularly bothered by rain, or if I don't do this or that I will be particularly saved from rain? That is going to happen in any kind of situation where you have centralized decision taking by a government which is not able to trace out all the possible implications.

Many of our difficulties in Canada have been simply that to the Americans, though we are their biggest customer, we are only a small part of the world they have to live in, and they take decisions that are involved in this

idea of non-discrimination and things like that, and they take decisions that really affect us and almost nobody else but which they take automatically and look on as applying to others at home. It is part of their mental image of their country. It is that they are not deeply involved in trade with Canada in the way we are conscious of being with them.

You are going to have that kind of thing but first of all this kind of thing is going to be less important. The major source of this kind of problem goes back to the 1930s and the world depression. When people are really fighting for jobs, you get this kind of behaviour. We have moved ahead as a result of the Keynesian revolution and the better thinking of economic policy, to a point where countries are not any longer really depending on cut throat activities towards each other to provide jobs. We know that all governments can provide jobs by providing demand and if you decide you do not want to provide the jobs for some reason you cut demand and you know what you are doing.

In the particular case you take of a supplier, I have always been puzzled by that kind of approach because no one ever bothers to fill in enough detail about this guy to know whether he is being screwed or not. I can see it is quite possible that the man who gets a special arrangement with a company may slack off a bit in keeping control of costs, he may not pay much attention to new developments in the technique. Then some guy comes along, younger and hungrier, and says "I do not see why you deal with that old guy when I can produce the stuff for you cheaper." I can also see the possibility of the company saying "We all know old Joe is really past it but we owe it to him in decency to give him a chance and we will give him the thirty days to see if he can smarten himself up."

As far as poor old Joe is concerned, this is unfair competition and he is being hard done by. As far as the company is concerned they may be spending a lot of money they need not spend in order to give old Joe the chance to modernize himself and be able to compete. As regards the young guy who is in the business of trying to produce the stuff and knows he can do it cheaper, what old Joe is saying is "That young guy should not have a chance, I got the market and I should keep it, and that poor fellow, he is not a poor fellow, he is an upstart, he must be put down and told that it is not within his competence to deal with this business when I am here."

I do not know what to make of that example, because you do not specify whether the company really has cheaper suppliers eager to find jobs for their people and make a living for them, it may be they are immigrants or something.

Senator Croll: The real point was that over a period of time there was a method and dependency one on the other that continued. The rest of it fits in, and they both sit back and say, "This is my customer; I am supplying; I provide the resources." Suddenly one day it is gone. I said the same thing might happen to the relationship between Canada and the United States. Is that not one of the great dangers in this integration you talk about?

Dr. Johnson: I am saying that it has nothing to do with integration. You gave an example of this happening without any integration.

Senator Croll: Yes.

Dr. Johnson: In fact in this example you used, you did not even specify that one is a foreign company and the other is a domestic one. You have this kind of thing going on.

Senator Croll: I took the domestic companies but the same kind of thing happens on the foreign scene.

Dr. Johnson: What is so special about the foreign company?

Senator Croll: I didn't say anything about foreign companies. This is a relationship with another country and since our own domestic relationship could fall apart that way, the foreign one could too. What is there that could give us security under those circumstances?

Dr. Johnson: Well, I don't think you are going to find security under any circumstances unless you can specify something that is really remedial in the conduct involved and which could be adjusted. This kind of example really poses a problem. You find this in magazine stories and all sorts of places about the faithful employee of 50 years' service and suddenly the boss comes in tells him that he is no longer doing satisfactory work. We are supposed to sympathize with the guy, but it may be that the guy was doing bad work for ten years and the boss didn't have the heart to tell him. He feels that perhaps it will not hurt too much now that he has reached this age and that he will have a pension and so on so now he can tell him goodbye and that he has put up for 10 years with his inefficiency. So you have that problem, and you cannot legislate for it or argue for it until you look at the circumstances. Clearly if a man is told that he is doing brilliantly and then he is called into the office next day and he is told goodbye, then that is unfair and incomprehensible, but if he has been doing business all these years and it is assumed, but it has not been tested out, that he has been doing a good job and the other side is a little reluctant to tell him every day, "Look, you did a lousy job on that," and finally he gets fed up, then who is to know what the fair procedure is and who is being victimized and who is not being victimized.

Senator Croll: Well, professor, you did say—and I have made a note of this here—that you didn't think it was wise for us to try to buy our way into the American market. But isn't the world doing that?

Dr. Johnson: What I meant by that was a specific example. The case I started with was one where because of the American tariff it pays to export materials in unprocessed form and then to process them within the United States. That is a distortion of natural efficiency caused by the American tariff, and I simply said in passing that you can do two things about that, either you can pay the American tariff and export the processed stuff, in which case you are paying the Americans for the privilege of having their tariff, or you can try to negotiate it downwards so that it doesn't have this effect. There have been cases of this from time to time. The British have involved themselves pretty heavily in this kind of thing, in effect subsidizing exports in order to overcome foreign barriers. You do this in all sorts of

ways. In government particularly you do this on highly technological products that you are proud of. You proceed to offer very special terms, for example, to airlines in the hope that they will buy the Concorde, for instance. They spent nearly one thousand million pounds on the Concorde and nobody wants to buy it, so you shave the price as much as you can and you offer all kinds of subsidies to the buyer just to give the world the impression that having produced this monster you have made a commercial profit out of it.

Countries occasionally do this; they absorb the loss of selling abroad because they want the demonstration effect of selling abroad.

I was arguing in this context that the cost of paying the American tariff in order to have the demonstration effect of having the stuff processed in Canada would be a very expensive way to living up to our image of ourselves as people who are capable of processing raw materials. It would be a lot better for us to try to negotiate that American tariff down on the grounds that it is doing them no good, and it is costing us, and their processors are not very good because otherwise they would not need the tariff, and so get a mutually beneficial arrangement than to use the old phrase of Mr. Bennett that we were going to blast our way into the world's markets. You can always blast your way into the world's markets, but you can also blast yourself at the same time.

Senator Croll: We are having this difficulty in this country; we are having a very hard time to convince our people that with the kind of resources we have in this country, natural resources, we can afford to export them and import the manufactured goods, and we really do not have an answer to this. Are we doing the right thing? Should we be playing some dog-in-the-manger act or what should our attitude be? How do we explain it to our people?

Dr. Johnson: I do not, as a Canadian, find myself charmed by the idea of regarding myself as a dog-in-the-manger under any circumstances. It is a problem, of course, and it is partly due to the fact that both the people and many of the decision-makers do not understand the economics involved here. They wonder, if we export resources and import manufactures, where are the jobs going to be in Canada. But if we manage our economy correctly—and I don't guarantee here that Canadians are any better at this than are the other countries—but if we try to manage it correctly, then we can produce something else with the people we have.

The problem posed here, obviously, is that the labour content of energy resource exports is very small compared with the labour content of manufacturing. One tends to be mistaken about this often, because one of the things that the less developed countries have been complaining about is the fact that despite their industrialization programs they provide very, very few jobs in the process of manufacturing. When we look at productivity in manufacturing, we find that manufacturing tends to kill off jobs, that its function is to increase efficiency by reducing the amount of labour it takes. So in that way we are in a losing game in trying to create jobs in manufacturing because the efficient manufacturer spends his time in trying to find out how he can make machinery do the work of

men. Just because resource products are less labour intensive than manufacturing does not mean that any time we move from manufacturing to resource production we must have unemployment. There are lots of other things that people can do, and one of the factors in all economies is that manufacturing has become less and less important compared with other things. I have a colleague in England who has a very old-fashioned idea about this kind of thing because he seems to feel that manufacturing is the great thing and everything else is dross and second-rate stuff.

Look at Canada, for example. Canada is highly competitive in the international banking business, and for the same sort of reason that the British are—we have a lot of Scots in the country. Scots make very good bankers.

The Chairman: Grandsons of Scots!

Dr. Johnson: The Canadian banking system is a home for Scots people. We are very good at banking; we have overseas banking operations, and we have been active all the time in the Euro-dollar market, and things like that. Our people are very good at that. That is something that they can do and they can survive until the world ends. There are other activities we do pretty well also and to summarize our problem in terms of, "Well, we must have jobs in manufacturing", is wrong. If you think about manufacturing it is one of the worst ways a human being can support himself. Almost every other kind of job you can think of requires people to use their intelligence and to think about things, and not simply to use their muscles to turn screws and so on. To go on doing that year after year is soul-destroying and that is what makes people old—doing the same thing all the time and never having to think and never being allowed to think. Many other activities are much more promising in terms of developing good citizenship, intelligent people, alert people, active people. Those are things which we could do, I would expect, if we exported more resource products and did less manufacturing. We would find that the results would be beneficial to the Canadian citizenship in the sense that our people would still manufacture but they might manufacture more interesting things.

Senator Lapointe: Dr. Johnson, do you think we should sell our resource products at higher prices?

Dr. Johnson: Well, as an economist I cannot really say that we should have a higher price or a lower price. Obviously a higher price is better than a lower price, everything else being the same. What I am saying is that, subject to a lot of problems involved in deciding when we should use our resources and what is the optimal time to use them, there is nothing wrong with exporting resources and using the money to create a better Canada. We must not get in the position of saying we must not export resource products at a profit. I will not use the steel industry as an example because Canadian steel is pretty good these days. There are other industries, such as furniture, at which we are very inefficient, and it seems to me it would be stupid to say we must not export resource products because then we would import furniture and lose the glories of having a Canadian furniture industry. There are lots of other things Canadians can make and do besides furniture making, which they might well

be happier doing than simply turning out poor imitations of English chairs and tables.

The problem I have as an economist, and that all economists have, is that everybody wants to think in terms of yes or no, black or white. Our problem is to recognize that it is never a question of black or white, all manufacturing or no manufacturing, all oil or no oil. It is a question of how much, what shade of grey is the best one. As soon as you start thinking about black or white, either I tell you grey is a colour that exists and is useful or else I am going to have to throw up my hands and say, "If you put the question that way I haven't got an answer to it."

The Chairman: Let me ask you a supplementary question that perhaps is in the grey area. We had Dr. Arthur Smith here last night, and one of the things we talked about was relative productivity between Canada and the United States. He made the point quite strongly that there was a disparity between the two sets of workers, and he saw no real prospect of it improving. Carrying through the rationale of your argument that free trade is perhaps the optimal situation, it seems to me that that clearly puts us at a disadvantage. That is the first point.

The second point is that the automobile agreement and the longer runs achieved therein certainly achieved the rationalization of an industry.

My question is: Given perhaps this factual disparity in productivity per worker between the two countries, and also the fact that there are not many other areas where long runs seem available, where rationalization seems available, do you see any other areas, such as the automobile area, with which you have indicated you disagree?

Dr. Johnson: I was brought up on this kind of thing, and I have followed it fairly closely, but I am beginning to have some doubts whether the conception of the problem and the way of thinking about it is the right one. I have been particularly impressed by some work done on differences between people who live in large cities and those who live in small towns. If you live in a large city there is almost nothing you can have without money, so you have to work. In cities like New York you find people holding two or three jobs and working very long hours, getting around the usual limitations of how many hours you can work at a particular job by having several jobs. The reason is that everything they consume involves spending money. In a small town you can do pretty well without too much money, because you can walk around outside, enjoy nature, hunt, fish, bask in the sun and so on. You can live fairly cheaply and you do not have to do that much work.

I think part of that is an explanation underlying the Canadian and American difference. We are accustomed to having a fair amount of time, spending a fair amount of time with nature, not consuming, and therefore not having to make money. That shows up in, among other things, labour practices. You could spend every single minute working, like the man in the Charlie Chaplin movie, turning screws, having the food come at him with mechanical arms to hold it at his mouth while he turns the screws, you can be much more efficient that way, but is that necessarily the way you want to live? From that

standpoint it may well be that Canadians would be quite satisfied to make a little less money and have a more attractive way of living.

You cannot really assume that the American system necessarily satisfies the Americans, but it does tend to be the style around the big cities. Part of that, of course, is tied up with their population structure, the immigrant background, and more recently the movement of negroes to the north. These people do not have a community that lives and enjoys itself apart from work; it is a community in which money is what counts. That is better than societies in which nothing counts but family, and you cannot get round that. It may well be that this is one of the things Canadians should be happy with rather than concerned about, that we do not have to be that efficient, we can have a little more control ourselves over how much work we do and how we live. Until we fathom that and decide that it really is something that is a great disadvantage to us and that Canadians do not want, I do not think we should be too concerned about it.

We do find in individual countries very big differences in the standard of living in different parts without it leading to what you would expect, which is to lead people to trying to leave the lower income parts and move to the higher income parts. That implies that in some sense people like it that way. In our economic measurements we may be missing part of what it is that makes people happy. If we are, then we cannot turn around and say it is a great disadvantage and we must do something about it.

The Chairman: I really posed the question in the context of competition, but I think we should move on.

Senator Cameron: I have many questions, but there is not time to deal with them all. One or two things struck me rather interestingly about the discussion this morning. Dr. Johnson has performed a valuable service in shaking our belief in the status quo. He has challenged some of our accepted ideas and concepts. My thinking is: My gosh, if ever there is a time we need to challenge the status quo it is now. I am going to say that if the Trudeau government falls next week it will be largely because they have followed the status quo in dealing with inflation and things like that. This may be heresy to some of my colleagues, but I believe it. I have enjoyed this morning's exercise, and philosophically I find myself in agreement with much of what you have said. I happen to come from that sheikdom of Alberta, so this may colour my thinking.

Senator Croll: What did he say about inflation that is different from what the Trudeau government has been practising?

Senator Cameron: I do not want to get into that.

Senator Croll: I was on the verge of asking Dr. Johnson how we set things right. However, I thought I would leave him alone for a while and let you ask him, but you asked him in the wrong way.

Senator Cameron: That is your point of view. What I am getting at is that philosophically I am inclined to agree with Dr. Johnson for the long term. It will take

a long time to bring some of these innovations in our thinking that you were talking about into effect.

I am concerned about the short range implementation of the program. You said something that intrigued me very greatly on the question of ownership. You said that ownership is a mixture of two kinds of ideas, both of which are wrong. You said ownership does not give power, it gives responsibility. I would like to think that ownership did not give omnipotent power. I think the challenge to our thinking today, if you accept the thesis that ownership does not give power, is the exercise of control by the government. I have always said that I do not care where the money comes from. I am not against foreign investment in this country; the more of it the better, so long as we have control. That is the crux of your argument, I think. I should like to see how you spell out the "control."

Senator Carter touched on another point when he talked about selling our cheap gas in the United States and 15 years from now buying it back expensively.

I was intrigued by your answer that there is a depreciation in the value of the dollar and I thought, "My gosh, what about the \$1,000 bond I bought in 1940? What will it buy today?" The same analogy can be applied to our gas.

I thought Senator Carter had been converted to a Tommy Douglas' philosophy. The question of ownership and control is a basic problem today. There are some people, usually on the left, who suggest that we have to curb the great corporations through government control. It then becomes a question of how much control and how that control is implemented. For example, are we going to wind up by having Exxon and all the others involved in that consortium controlling the Mackenzie Valley pipeline, which is going to be a \$6 billion to \$10 billion investment, even though Exxon is controlled by a good Canadian, Ken Jamieson? How do we attain that control without becoming a dictatorship?

Dr. Johnson: I find it difficult to cope with your question, senator, because I really do not know what you mean by it. There are different attitudes in respect of these kinds of things, one of which being that if the company is run by somebody I know personally and I can go in and see him, that is somehow better than if it is run by somebody I don't know. I think we in Canada are in danger of trying to go by what I take to be the British system of economic control, which is that you manage things so that your businessmen are always second rate and impressed by politicians, and when you want something done that is going to cost the shareholders money you call in the businessman and call him by his first name. I do not particularly like that way of doing things. A better way, it seems to me, assuming you want something done that is going to cost somebody something, is to lay everything on the table and have it argued about.

The issue as between American and Canadian control is mostly important in that kind of context in which politicians can use pressure to make businessmen lose money for their shareholders in order to keep in with the politicians. I do not like that way of running governments or business.

If we are not to go that way, then what we require is explicit government rules and decisions which apply to people, whether they are Canadians or Americans. Also, we are going to have to start thinking, sooner or later, about Japanese and German firms, because those two countries are going to become relatively more important and will be looking for overseas investment.

So it may well be that a good many of the things we in Canada think now will be quite anachronistic, because we will not be facing Americans so much as foreigners in general. We have never made up our minds as to whether it is Americans or foreigners generally that we do not like.

On the question of control, I think there is a rather unrealistic attitude. I have seen it in my own recent career where a radical student will say, "Well, if Professor Harry Johnson says we should have a course in Marxism, we will have a course in Marxism." To that I say, "Look, you don't understand this. I cannot introduce a course in Marxism and make you take it unless my colleagues are willing to subscribe to it and unless I can get a man to teach it who is acceptable to my colleagues in terms of his qualifications as an economist." I am a professor because people trust me to make reasonable decisions and not to do erratic things. If I begin to use the power of my position to make everything different, I will be out. I can only be a person in control provided I control it in a way that people accept.

It seems to me there is a lot of worrying about control. Somehow, it is believed, when people get to the top of a business by understanding that business and by having made the correct decisions, they suddenly turn around and start being crazy and "power mad." The view that, "If I were the head of the company I would not want things that way. I would instead use the money in fostering my political beliefs about South Africa, or something like that," just reflects a lack of knowledge of what the whole thing is about. You only have control provided you control things in ways that are acceptable to all of the people involved.

In everybody's backgrounds we have a lot of novels and myths about things the way they used to be. Well, in early nineteenth century Britain the man who owned the mill could fire his workers and do this and that only because there was unemployment all over the place and the worker had to toe line. We do not have that situation anymore. He also had his own money invested in the mill and if he wanted to waste it, he could do so. The man who is spending shareholders' money is in a different position, because if he starts losing money for the company the shareholders are going to complain. They may do so directly or they may do so by simply selling their shares and he will find himself in a position of not being able to raise capital to finance the business.

So, control is not absolute power in the way people tend to think of it. If it were, then there would be some point in saying that we should have Canadians controlling business to enable us to get at them. We could use all the power we have over a member of our own kinship group, or whatever you want to call it, and make that man do whatever we want him to do even though it is bad for him, bad for his employees and bad for his business.

If it is a question that we don't want certain things done in the extraction of our natural resources, then we want to legislate in that area, instead of thinking that if we only allow Canadians into that area, somehow everything will be done right, because it will not be.

Senator Macnaughton: Mr. Chairman, to quote a super power, "Parliament is the appropriate guardian of the public interest."

Do you remember who said that, Mr. Johnson?

Mr. Johnson: Yes, and I believe it, in spite of the many reasons I have had since then to doubt it.

Senator Macnaughton: That is from your own book.

Mr. Johnson: Yes, I know.

Senator Cameron: That is what I want to get into. Who is going to exercise that power? It must be the government in the long run. This question has been touched on peripherally in several questions posed this morning. What happens to Canadian industry in the event that we have free trade? Obviously, the test of industry would go down the drain, along with the employment related to it. On the other hand, the rubber people in Kitchener say that if they could just get into the American market they would compete with anybody, because they are talking about a market of 210 million as opposed to our 20 million.

We have certain levers of power nationally in this country which give the government control if they use those levers. The Tar Sands in terms of gas is one, but it isn't as big a lever as a lot of people think. I think our total resources are only about 6 per cent of what the Americans consume, but it is still a lever. Another lever is land. Americans are trying to buy up our land and we are controlling it. Probably the greatest lever of all is one we are not hearing so much about, but which we will in the future, and that is water. This is our greatest resource and the Americans have to have it. I am not thinking of this in a "dog-in-the-manger" sense, but how do we exercise those levers of power in terms of trade-offs? If we are going to lose some industries, as we would, how can we use those levers of power to protect employment in other areas?

Dr. Johnson: Again, I have some difficulty with that question. So far as I know, Canadian babies are not born with little tags around their necks saying, "I am a textile worker," or "I am a rubber worker," and so forth. They are not condemned to that. I think the important thing would be that there would be more money in rubber and less in textiles. There is more money in rubber because Canadians are good at it, whereas the textile industry is here for a lot of reasons which are not particularly desirable.

I have been inside both types of factories and I do not really see that it is important to spend your life inside a textile factory as opposed to a rubber factory. I don't think it makes that much difference. The money you make is the most important thing.

In large part we have control anyway, in the sense that national policy will determine whether many rubber and textile workers become unemployed. That is the main thing and the main things we do to ourselves. We

do tend, in my opinion, in Canada, to take the easy way out, of blaming the Americans or someone else. Really however, it is our own government which should be smarter than it is. However, the question is what happens if we have free trade. We have the Canadian-American committee and many Canadian experts on trade policy considering this very, very carefully and precisely because the question is asked how are we to make that change? The answer emerges that we will not introduce free trade over-night, but come to an agreement to introduce it by stages. If we consider the history of the European Common Market, they had even more reason than we have to worry about the effect of free European trade upon the industries of particular countries. Two developments took place: One was that the French were smart enough to change their competitive position by devaluing their currency before the Common Market was established. All of a sudden, instead of seeming to be a high-cost, non-competitive country, they were competitive with the best of them and they have done very well because they were smart enough to change their exchange rate to match what they considered to be changes in prices, costs and competitive position that eventuated. The second development was that they arranged to introduce free trade by stages on the basis of the assumption that businessmen needed all that time to adjust. In fact, the businessmen themselves started asking for it to be speeded up, saying they could make the adjustments. In the literature produced by the Canadian-American committee to which I referred, the idea was five years on the American side and 10 years on the Canadian side. I would think that, as was the case in Europe, once there is the idea that that is the direction in which we are going people will ask why waste time, let us get going now that we have made the decision.

Senator Grosart: Mr. Chairman, my supplementary is in connection with Dr. Johnson's reference to studies concerning the effect of the relocation of national productivity. What has been the general pattern that has emerged from those studies? Would you also give us the names of the authors, because I think it might be very important for us to have them appear at some time.

Dr. Johnson: The most important study that was made is a major study by Ronald and Paul Wonnacott. That was the most substantive one measured in various ways, but particularly in terms of the man years of highly qualified time. There were many other studies made and good studies, but rather smaller in scale. In other words, these studies undertaken by the Canadian-American committee attempted to take advantage of the fact that Canada had many good people, but not years and years to spend on it, so they broke the problem up.

The general result emerging is contrary to the picture conjured up by those who are against freer trade. Two aspects emerged, not necessarily equally useful. First, on the whole Canada would gain considerably and, on the whole, Canadian manufacturing would tend to benefit. This is particularly the case according to the results of the Wonnacott study, which is concerned with that. The reason is fairly simple: We have a much lower wage level and geographically our industry in southern Ontario and Quebec is part of the Michigan, New York, Boston,

et cetera, complex. We are located very much more attractively from the standpoint of industrial competition, transportation facilities and other requirements than, for instance, Denver, Colorado which, by the way, is a declining city, and some of the other mid-west cities, such as Minneapolis-St. Paul.

On the other hand, if we think in terms of Canada as a whole and consider the impact effect, this study tends to indicate that the benefits would go to Ontario and Quebec. The Maritimes on the one hand and the central provinces on the other would probably suffer more than they do now from their locational disadvantage. At the present time they do have some advantages given by tariffs and a preferred position in the central Canadian market as a result of various government policies which they would lose, of course, in a free trade arrangement. So would some American regions, however, which are also benefitted by the American tariff, and would tend to lose out to Ontario, Quebec and also the West Coast, which has particular access to an industrial belt in that part of the United States. So on the one hand there would be a benefit to Canadian industry as a whole; on the other, some regions would lose.

We must bear in mind that ability to compete in industry is a matter not only of trade policy, but also of the kinds of people we train, the education we give them and the location in which manufacturing is carried out. We have a pretty well-educated population by comparison with most countries and a good location for this part of Canada in relation to the most high-powered industrial part of the United States as it has existed so far.

I mentioned earlier this broad but unmistakable drift in the United States toward the south-west. In the course of time that might well change the impact on Canada of free trade with the United States. Just as New England and New York are tending to decline, so Toronto and Montreal might decline relative to Vancouver, Calgary, Edmonton and other centres as United States industry moves out to the West Coast as it has been doing. Those parts of Canada, rather than this, may be the beneficiaries. There is the point there that the population is tending to move towards nicer climates. People can afford to live in nicer climates and they can afford to move industry there more easily than was previously the case. We may well find major changes in the whole politics and economics of North America, including both Canada and the United States, as a consequence. We could see it taking place in other continents. Because of air transport, air conditioning and many other developments the places in which we wish to live are becoming livable compared to those places in which people have lived without wishing to do so. We are experiencing important changes, which have political implications in addition to everything else.

In Europe the Mediterranean is being rejuvenated. Having been the centre of European civilization in ancient times and being in decay for a long time, it is now becoming again an active part of the European economy. However, I will not develop that historical aspect too much.

The answer to your question is that Canadian industry, taken in the aggregate, would do well. Broken down by provinces, however, some would do very well and some would not do well at all.

Senator Grosart: Do you see free trade as levelling out horizontally the productivity throughout the existing 10 or 12 members of our present common market in Canada, or an acceleration of the problems of regionalism which we already have?

Dr. Johnson: I believe there would be an accentuation of the problem of regions. One must also consider, however, the United States, because they have the same problem, also having regions which are not too viable and which would tend to lose through free trade, just as they lose from internal free trade. The Maritimes in Canada are protected against certain eventualities which might be caused by freer trade with the United States. However, we have more than a hundred years of experience of the Maritime problem within the Canadian free trade area. The reason is, in my opinion, very simple, that there is no law of nature that says that for ever after people who settle in one particular geographical location will continue to enjoy the relative income they had to start with. Important changes have occurred in the technology of shipbuilding and transportation which have tended to leave the Maritimes sort of high and dry. They would be receiving some of that back in so far as Confederation has meant cutting them off from their natural market in the New England States to some extent and they have been paid subsidies and so on to compensate. However, on the whole they would tend to lose.

Senator McElman: Mr. Chairman, the witness earlier referred to the great success of Scots in the Canadian and international banking fields, and you typified me as a Maritimer. I also must say I am a Scot who started out in banking and ended up in this place. To the minds of most Scots that would be an indication of total failure.

I would like to refer to a reference made by Senator Croll in connection with the dangers of closer integration and waking up one morning to find another Texan like John Connally throw the whole country into trauma. I think perhaps it is significant that Canada, après Connally, remains the largest customer of the United States in trade, and the United States remains the largest customer of Canada in trade, and Canada seems to be doing quite well economically, yet Senator Connally has largely disappeared, which brings me to the area I wanted to question the witness in.

Should not Canada, instead of trying to shape itself in trade within an aura of fear of what might be happening later in the world, shape itself to live within the real world which actually exists, and that world, in so far as Canada-U.S. trade relations are concerned, is one in which the U.S. does have a tariff structure which favours the use, to a great extent, of our natural resources, and militates against many of our manufactured products.

So what do we do? As some of the members of the committee have asked, do we sit on our resources? Do we play the dog-in-the-manger and wait for something to happen that would make us great world traders of manufactured goods?—which I suggest is not going to happen overnight.

Well, we are a nation with, without question, great surplus in some natural resources. Until that great period arrives later when everything is ours, particularly with

regard to the processing of those resources which are becoming distasteful to the environment and to the public, even more in Canada than in the United States, I suspect, would our interim answer not be to go into the multinational field even more than we are, or duo-national field, looking at Canada-U.S. trade relations, and ship our resources on a selective basis, if it could be accomplished, to our own subsidiaries in the United States, get the profits, repatriate the profits to Canada, and then do those things in Canada that we want to do, in development, both industrially and socially? Surely what is happening with the OPEC countries today is a pattern. They have dollars coming out of their ears, by shipping a natural resource to the world. They are caught in the bind of trying to find out what to do with their money. They cannot use it all for social development, even as rapidly as they can bring it in. Is our answer to become the multi-national country—the duo-national country—and ship our resources into the United States on a selective basis?

Dr. Johnson: Well, that is a very difficult question because you have not really said very much about what “selective” means, and how you select it. Also the question is, how much would it cost, and here it seems to me that you have not made it clear whether you are thinking of using this kind of strategy, if you like, for Canadian development as a bargaining weapon, in trying to get the American tariff changed, so that it became less expensive to do this, or not.

My argument has been more about the possibility of getting the American tariff changed by willingness to negotiate over tariffs. Again I mention that things are really up for grabs now, compared with the way they used to be, in terms of Canadian-American relations, as in the case of protection for Canada against duties imposed elsewhere; but it does seem to me to raise a whole lot of issues there about “selective” and so on, and I think this is one of the problems one gets into in political discussions in this country. People like to use nice adjectives like “selective,” and “imaginative,” and “adventurous,” and “independent,” and so on, without specifying what exactly they mean. I am, of course, in favour of “selective” as compared to “non-selective” anything, assuming I do the selecting, and that I am smart. I am in favour of independence as compared to dependence, and so forth, but I do not really have any basis for discussing these things, because all you are asking me so far is, do I like one kind of adjective rather than another, rather than, do I favour one kind of particular strategy in policy rather than another, which is concrete enough for me to make some kind of statement about.

On the question of pollution, which you started from, it seems to me to raise the question of, where does the pollution start? Does it start with the production of the product, as in fact used to be true around Sudbury, that the forest was blasted for miles and miles around by the sulphurous acid coming down from the copper smelter, or does it come from, as many people tend to identify it, from the cities being littered with pieces of old copper or tin cans? Is it the consumption of the goods, or the production of the goods, which causes the pollution? It

seems to me that that kind of thing makes a difference with regard to what you think about as a way of getting the pollution off your doorstep and on to somebody else's. If production of natural resource products involves some kind of destruction of the Canadian environment, then we have to look at it in one way; if production of these things enables us to avoid all the problems of urban life and spoilage of the environment by littering tin cans around, and so forth, that is something else again. One cannot really discuss this kind of question, as to what the right strategy is, until one knows where the differences are going to arise from having that strategy as compared to another.

One might argue in the case of Sudbury, which was the awful example in my youth, you know—all those hills around, with no trees on them, and this sulphurous acid dripping down—that in Ontario most of us did not go to Sudbury, anyway, and so we did not see the hills destroyed like that, and the people who worked up there—and there's a certain amount of racialism in this—were your central European immigrants, and they did not know any better, and it did not bother them that they had these trees blasted; they like to have the pay packet, and life in Canada, and they could put up with it.

Well, we have a problem with Canadian resources. It may be that it is optimal from one point of view for us to produce these things, because we have lots of places where nobody goes anyway so they might as well be polluted as not. On the other hand, if we think of ourselves as producing a great industrial civilization on the basis of resources, we might well be creating for ourselves the very problems we have avoided so far; that is, if we really were to build a Canadian population on an industrial manufacturing basis, we might well be creating for ourselves the kind of problems we look south and see and are appalled by, in terms of city sprawl, urban congestion, destruction of the natural environment to make room for tall apartment buildings—all this kind of thing; and I just do not know how to come to grips with that kind of question.

Senator McElman: Well, for the moment, let us forget about the environment. Let us forget about selectivity of exports. Let us just come instead to the question as to whether it is in Canada's interests, since the tariff structure is not going to change on December 31 of this year or for some time to come, to the degree where there will be free trade, and looking in realities, to consciously develop as a policy that we have resources which we cannot use to the optimum within our own country, and that it might be advantageous to us, not only in the United States but in other of the developed nations, to move in with our own subsidiaries, to ship resources to them that are surplus to our own requirements, and thereby generate the cash flows back into this country that will enable it to do the things it needs to do.

Dr. Johnson: I would be pretty suspicious of that proposal, because it seems to me that, as shown by experience in many different countries, the use of subsidiaries does have costs attached to it. The use of subsidiaries often is a what we call a minimax strategy. It involves costs in one direction and benefits in the other.

If you establish a subsidiary, as the Americans and others have found when they establish subsidiaries in Europe or less developed countries, you have to learn a whole new set of rules, usually a different legal and tax system, and so forth. In some cases you save money by not getting into that business, which is a big learning process, but by selling the commodity to some guy who knows the local situation.

If you look at American enterprises abroad, for example, you find Coca-Cola bottling plants all over the world. There are arrangements whereby the company sells the syrup and the local guy does the bottling. That saves the company having to learn the local laws, do the local bribing, or whatever may be involved.

Colonel Sanders now sells his fried chicken in Australia on the usual basis of one cent per chicken. The local capital puts up the management and looks after the property. It knows the laws and it takes all that cost.

It might well be that the cost to a Canadian firm of developing an American subsidiary in order to get the benefits of producing with the materials they are selling might involve a pretty substantial cost compared with just selling the materials and letting some American who knows the ropes down there produce the stuff.

There is no particular proof, or reason to assume, that you make money by conducting operations that you do not know how to conduct.

We know the history of Henry Ford, who nearly went bankrupt with the idea that because he could make cars he could also make glass, headlights and all sorts of other things. He got himself heavily involved in producing parts and had to cut the whole thing out because the guys that produced the parts were better at producing them than he was.

You cannot assume that simply because it seems to you that you can do better than the other guy, that that is the truth.

It is not at all clear, if we do have surplus materials, that the best way to make money out of them for Canada is to start trying to build plants in Mobile, New Orleans, and all over the place, to use those materials, when there are guys on the spot who are much better at using the local labour, wangling the local laws, and getting the local garbage collected, than you are likely to be.

Senator McElman: Coming from New Brunswick, we have an ultimate expert in horizontal integration of corporate structures in our province, who is proving that it can work, that the Canadian can work in the United States under the U.S. laws, as he has done under Canadian laws.

There is one other area that I would like to probe for a moment. We have discussed with a number of witnesses the fact that Canadians are very well informed on what happens in the United States, but that Americans are not well informed on what takes place in Canada. In many cases they could not care less.

For a continuing good relationship, something needs to be done to correct that negative attitude. There should be a two-way street of information.

We had one witness who suggested that perhaps we could create more scandal here, and in that way hit the

large American newspapers. I do not subscribe to that. It seems to me that those in positions of authority in the United States, or many of them, are aware of Canada and are familiar with it, even though the President of the United States recently put himself with the masses in not knowing too much about Canada when he suggested that Japan was their best trading partner.

It seems to me that we are moving into a period where the masses of the United States will become aware of Canada, or more aware of Canada, but in a most unsatisfactory way.

We currently protest the proposal for shipping oil to the West Coast, and many Americans are aware of that. Some Canadians have gone into United States courts to try to prevent that shipment. We have the immediate case of Canada stating that it will be reducing its oil exports to the United States on a diminishing scale over a period of time, and many Americans are aware of that. It is an awareness that does not endear Canada to the United States. We have many Canadians who are protesting—I am not one of them—shipment of resources, and more Americans are becoming aware of that.

Do you feel, as I do, that the things are happening between our two countries that will not endear Canadians to the masses in the United States as they become aware of us in this fashion—that the masses will, as always, have an effect upon the government in not improving relations?

Dr. Johnson: Senator, I detect in all this questioning what is known by those of the radical side as American cultural penetration of Canada. The idea that somehow you ought to endear yourself to the masses is an idea which the British never had when they ran their empire. They did not give a damn about the masses.

It is the American belief that somehow being beloved by the masses of other countries is a great thing. This may be a tremendous handicap.

I start from the fairly economic view of things, which ties up with what I said earlier about the relation between Southern Ontario and Northern New York. The vast mass of Americans do not know anything about Canada because they do not live close to Canada.

What we get essentially is the fact that we are part of a cultural drainage area which involves both New York and us, focused on Washington and New York. We get all this information about the United States because we happen to live close to it and our major media are within a catchment area like the American ones.

Even living in Chicago you learn a lot less about Canada than you would in New York or Washington, but you would learn also less about the United States. If you went to New Orleans or out to California you would learn very little about the United States, at thought of in terms of New York and Washington.

They are mostly concerned about their own problems. Their newspapers are full of gossip about people you have never heard of. They are the local bigwigs, industrialists and political leaders.

They are not much concerned about what goes on elsewhere. It just happens that our population is strung out along the border, whereas theirs is mostly far to the

South of the border. That is why they do not have much news of us. They do not have much news of their own government either. They might get a headline on the front page about Nixon, but when it comes down to political events, mostly what they are getting is what is going on in the state legislature.

That is natural enough. That is what they are interested in. That is where they live. They do not live in Washington or in a big world where they are making policy. They live in a state, or a city, and their main interest is in that.

I do not think you are going to get this mutual knowledge you want. Newspapers are dependent on sales in a particular geographical area. If you watch television in the New Orleans area, or in California, mostly what you get is what is going on in some town nearby.

My wife and I were in California a week ago, and we were getting tremendous television coverage of a black man who was murdering white people in San Francisco. He had killed about 12 so far.

The whole issue was, "Is it legitimate for the police to stop coloured people on the grounds that this guy is known to be coloured, or is it an invasion of their democratic rights?"

I do not know whether anyone in Canada heard about that one. We did not hear much about it in Chicago, but that was the hot news in the bay area.

That is characteristic of the geographical limitation of newspapers. They have to sell their newspapers by producing stuff that people want to read. They are too far away from Washington or Canada to care much about what goes on there.

Perhaps we are safest on that basis, that they do not know much about us. We have to have a protest from them every year or two about something we have done, and maybe on the whole that is less troublesome than having to tell them every time we do anything.

Senator McElman: Perhaps I should say to you, sir, that this simply proves that the U.S. news gets to us very quickly, because we have it before you. It was not one zebra; they caught seven yesterday.

I suggest that what you are saying refers to the past. What I am concerned about is the future—the future of the attitude of Canadians to Americans and Americans to Canadians and that it should be good. And I am afraid that it is not going to be good.

Contrary to what you have said, two years ago the ordinary American on the street did not know anything much about the OPEC countries and cared a hell or a lot less; but today the average American knows about OPEC countries and what he knows he does not like.

What I am concerned about is that the things the American people are now beginning to know about Canada are things they don't like. I want to see excellent trade and other relations between Canada and the U.S., going both ways, and I am concerned.

Dr. Johnson: I take a somewhat different attitude. It does not bother me too much that Americans don't like what they see, because very often what they really like to see is other people sacrificing for the benefit of Americans. I don't see any point in that. I don't see why

an Arab should lower the price of oil in order to make Americans think well of him. If he does lower the price of oil the Americans just forget about it and he doesn't get anything out of it anyway. So I would be just as happy if Americans saw things happening in Canada that they didn't like, providing those things were good for Canadians and providing that it was not a matter of chiselling Americans for the benefit of Canadians but was just something that Canadians ought to do.

I don't see any particular virtue in Canada having good relations with the United States on the basis of holding the price of Canadian oil down below the price the Arabs charge, or anything like that. But again I have this joke I made about cultural penetration. We do tend to want to be loved, but there come times in life when you have to be unloved and put up with it. It is part of the business of being an adult that you recognize that sometimes you do things that other people don't love. But it is a matter of doing things that you think are right or things that are not stupid to do.

So the Americans are going to find a lot of that. The British and the Europeans found a lot of that. Lots of people are certainly annoyed at the Middle East countries by the fact that the price of oil went up. Nobody likes to have his bills rise. Even if it is a matter of poor people getting more money, most of us are not prepared to carry our love of poor people and our desire to do something for them to the point of actually giving them a lot of money out of our own pockets.

We would be quite happy to vote that other people with more money than we have should have to pay their

money to poor people, but when it comes to our voluntarily doing something about it we don't like it.

I think one of the things Canadians are going to have to do if they are going to become more independent in any real sense is to tolerate the idea that Americans find things about Canada that they don't like. We are much better off with that in the long run than trying to pretend that the things we are doing should be liked when they are not, which I find one of the worst things about Canadians—in other words, that we should steal something from them and yet they should love us because we are Canadians. If we are going to cost them money we are going to have to get used to the idea of not being loved.

Senator McElman: Mr. Chairman, I was not interested in love or in the price of love, although, of course, things can be priced. I was very much interested as to whether you had any thoughts about what I consider a developing trend, which is not good for Canadian-U.S. relations or Canadian-U.S. future trade. Thank you, Mr. Chairman.

Senator Grosart: Mr. Chairman, isn't the answer the old newspaper aphorism that bad news is good news?

The Chairman: Well, Dr. Johnson, it is now 12.15 p.m. and in my memory this is the longest hearing we have ever had. I think that that is an expression of the great interest which the members have had. It has been provocative, as Senator Macnaughton has pointed out, and it has been most educational and most rewarding. Thank you very much.

The committee adjourned.

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SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 4

THURSDAY, MAY 9, 1974

Fourth Proceedings Respecting:
Canadian Relations with the United States

(Witnesses:—See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John A. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, May 9, 1974.

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9.33 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Lafond, Lapointe, Macnaughton, McElman, Rowe and Yuzyk. (9)

Present but not of the Committee: Honourable Senator Molson.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witnesses: From Statistics Canada:

Dr. Sylvia Ostry, Chief Statistician of Canada;
Mr. Jacob Ryten, Director, External Trade Division;
and Mr. E. B. Carty, Special Adviser on Balance of Payments.

Dr. Ostry submitted a document entitled "A Comparison of two Measures of the Canadian Bilateral Trade Balance with the United States". That document was identified as *Exhibit "3"* and is printed as *Appendix "A"* to these proceedings.

At 10.10 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 9, 1974

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, it is past 9.30, I see a quorum and I declare the meeting legally constituted.

It gives me great pleasure this morning to welcome Dr. Sylvia Ostry, Chief Statistician of Canada, to our hearings on Canadian relations with the United States. Accompanying Dr. Ostry are two senior officials from her department, Mr. Jacob Ryten and Mr. E. B. Carty.

Dr. Ostry was born in Winnipeg and trained as an economist at McGill and Cambridge. She holds a Ph.D. in Economics from these universities and six Canadian universities have conferred honorary doctorates on her. Before coming to Ottawa she pursued an academic career at McGill, Sir George Williams and the University of Montreal. From 1964-65 she worked as consultant on manpower studies with the Economic Council of Canada. She was director of special manpower studies and consultations in the Dominion Bureau of Statistics from 1965 to 1969 and did research during this period for the Department of Manpower and Immigration. From 1969-72 she was Director of the Economic Council of Canada. In June, 1972, she was appointed as head of Statistics Canada.

The United States-Canadian Trade Statistics Committee was set up in the fall of 1971 to try to reconcile the growing gap between the trade figures published by Canada and those published by the United States. In her capacity as Chief Statistician of Canada, Dr. Ostry acts as the Canadian co-chairman of this committee. Mr. Ryten, Director of the External Trade Division, is also a member and serves as an alternate co-chairman. Mr. Carty, special adviser on balance of payments questions, was a member of an earlier joint working group on balance of payments statistics and has had long experience in trying to sort out where the discrepancies in the figures lie.

It seems to me that, given the magnitude of the problem, the fact that the joint committee has already issued two reports with reconciled trade figures for the years 1970, 1971 and 1972 and preliminary figures for 1973 is no mean achievement.

What the committee is interested in particularly is the way the governmental machinery existing in each country was put to work to solve a problem that was adding fuel to a very hot issue in bilateral relations. What procedures got the two elements working together, what problems did they face, how were they solved and was there provision made for an ongoing procedure to prevent recurrence? These are some of the questions we will be looking at

when we hear about the formation and workings of the bilateral trade statistics committee.

Dr. Ostry, I understand you have a paper which is being distributed to committee members now.

I am told that all members of the committee have a copy of that paper and the chart that goes with it.

I have spoken to Dr. Ostry and she indicates that she would like to make an introductory statement which she tells me will take about 15 or 20 minutes. I have asked Senator Carter if he would be kind enough to lead the questioning. I think it is appropriate that I should note that this morning we are operating under very peculiar circumstances having regard to both the time of the meeting and even the actual holding of this meeting. I would therefore ask that we keep our eye on the clock and set a deadline for approximately 10.30. I shall do my best to equalize amongst you all the questions you may have in the usual way.

Senator Macnaughton: Mr. Chairman, as of the moment we are perfectly legal, aren't we?

The Chairman: Yes, we are perfectly legal.

Senator Macnaughton: There has been no public notification.

The Chairman: No. The point I was making, was that it is an unusual situation. I wish really to emphasize how grateful we are to Dr. Ostry and her colleagues for coming here this morning, because under ordinary circumstances, perhaps, this committee meeting might not have taken place.

So, Dr. Ostry, with those remarks I would turn to you.

Dr. Sylvia Ostry, Chief Statistician of Canada, Statistics Canada: Thank you, Mr. Chairman. May I return that statement: We are indeed grateful to have this opportunity this morning. We know there is nothing else on your minds except the question of the reconciliation of Canadian-U.S. statistics! . . . This account of the reconciliation of the Canada-U.S. trade statistics is presented here both because it has intrinsic interest, we feel, and because it may suggest more general principles applicable to different problems, or different circumstances. We have undertaken mainly to describe the project as we perceived it. We have made some modest attempt to move from the specific to the more general. We hope, however, that when placed within the context of the full range and richness of your committee hearings and your own knowledge, our project will prove a useful contribution to your far broader objectives.

The project concerns statistics; primarily statistics which deal with the flow of merchandise, trade and services between two countries, Canada and the United States. There is something special about international statistics, though not unique to them: they can be measured

independently from two sides, from the side of the seller and the buyer and from the side of the country of origin and the country of destination. This feature has a peculiar consequence: Rarely do two measures of the same set of events yield the same result, especially when these measures originate in different countries with different needs and statistical systems embedded in the context of different priorities and methods. These differences are extremely challenging to technicians motivated to solve problems and improve their craft, but if they become unduly large they can seriously distort the perception of policymakers in a particularly vital area of policy.

That is what this story is about.

The story starts when the United States and Canada found that they were in the process of measuring the same northbound and southbound flows of goods and services between them, but the gap between their respective measures had grown to such an extent that it alone was worth more than one per cent of the Canadian gross national product in 1970. A large gap in measuring the bilateral flows of trade and payments between the two countries was not new to either policy makers or statisticians. Both were well aware of its history and some, at least, were conscious of the speed at which it was growing. Both had kept up some form of pressure to mobilize available resources to tackle what had ceased to be a mere statistical challenge and had grown into a real stumbling block to meaningful negotiation.

Between the United States and Canada there had been, for a long time, some institutional arrangements designed to deal with the statistics. In the 1960s, the rising concern of policy makers and statisticians led to the establishment of a Technical Working Group on Canada-United States Balance of Payments Statistics, with wide representation from economic policy and statistical agencies on both sides of the border. The Technical Group soon found out that the gap in the current account of the balance of payments could not be explained as long as there was no solution to the immense problem presented by merchandise trade. Merchandise trade is the major component of the current account between the two countries and it is so by a fair margin. Furthermore, it is a relatively rare statistic, arrived at as a result of a complete count of all transactions that occur between the two countries over a period of time. In conducting this complete count, statisticians are dependent on their respective customs administrations which, of course, exercise regulatory and enforcement roles in collecting the statistics and in ensuring the completeness of their coverage. Accordingly, the question that struck the Technical Committee was, why, in spite of originating in similar administratively enforced systems, the data on merchandise trade differed so profoundly between one country and the other.

The group did not meet this question with one answer, but with several. It drew up a catalogue of explanations based on the different definitions of scope and coverage used by each of the two countries, and tested these against the gap. But as time went on, even though the differences were considerably narrowed, the remaining gap was far too wide to be acceptable. Besides, many of the adjustments made to the trade figures for use in the balance of payments, could only be applied at the most aggregate level. Sufficient knowledge was not available to apply them to the very detailed commodity statistics that are associated with the publication of totals of merchandise exports and imports. Unfortunately, it is precisely these

trade figures, issued outside the context of the balance of payments, that are published faster and more frequently, and it was the enormous gap between them that attracted public concern.

On the chart that has been distributed Mr. Ryten will point out the pieces relevant to the point we are making regarding the visibility of the trade gap. (*Note: For Chart—See Appendix "A" to these Proceedings.*)

Mr. Jacob Ryten, Director, External Trade Division, Statistics Canada: Mr. Chairman, this chart corresponds to the one that was distributed to the committee members at the outset of the meeting. On its left-hand side you see the gap as measured by the merchandise trade figures which, of course, is growing very, very rapidly between 1965 and 1973, to attain a level of approximately \$2 billion, in our latest figures. On the other hand, the gap as measured in the balance of payments figures—we do not have the 1973 discrepancy figure—is much, much narrower and does not grow as rapidly. It remains almost steady between 1969 and 1972 at a level of approximately half a billion dollars.

The Chairman: Thank you very much.

Dr. Ostry: In the mid-sixties, some trade statisticians decided to find out more about the problems in their figures by a field experiment. In co-operation with customs authorities, statisticians were stationed at three sets of facing customs ports, such as, for example, Windsor and Detroit. At the end of every day, their task was to compare the number and value of documents filed by truckers at one end of no man's land with the corresponding value and number of documents filed, presumably by the very same truckers, at the other end.

It would have been interesting to have heard what the truckers said about this experiment. The experiment came to naught because the differences were so large and so unexplainable, that there was no way to predict them or to apply them to other situations arising along the border.

So if an *a priori* list of answers drawn from different conceptual arrangements was not adequate, because it could no longer predict the size of the gap, and if the physical solution of comparing documents filed on both sides of the border did not work either, what could statisticians do to both explain and put a stop to this growing error?

In the year 1971 the disagreement in the figures attained monumental proportions. This was emphasized by the dramatic context in which it occurred—at least as far as the United States was concerned. On the one hand there was little if any domestic economic growth in that country. And on the other, there was an unprecedented deficit on the overall balance of payments, including a merchandise trade deficit, in startling contrast to a practically unbroken procession of surpluses in this century. It was at this crucial point that a very rare convergence of interests, objectives, and understanding at different levels of government occurred.

The Canadian Minister of Industry, Trade and Commerce had talks with his United States counterpart very shortly after President Nixon imposed restrictive trade measures in mid-August 1971 and equally shortly after the confrontation between Mr. Benson and Secretary Connally. Both deplored the fact that issues could not be discussed sensibly in the absence of a common set of figures measuring the trade between the two countries. Following the meeting, Mr. Stans wrote a letter to the Canadian

Minister stressing this fact and requesting the formation of a new institutional arrangement to help officials in both countries come to grips with the problem and to do so reasonably quickly. Of course the Minister of Industry, Trade and Commerce's answer was favourable, and the exchange led to the formation of the United States-Canada Trade Statistics Committee. But these events did not take place in a vacuum. The discussion between the ministers was being echoed by intense discussion at a lower level—at the level of technical experts who now found that the immediate relevancy of policy needs had provided the necessary impetus to the solution of one of their outstanding concerns.

One week after President Nixon imposed the restrictive measures of mid-August 1971, a United States trade statistician arrived at Statistics Canada for talks with his Canadian counterparts. The timing of the visit might seem strange—perhaps you do not understand the meaning of that, but statisticians are usually not that rapid—but in fact was totally independent of the President's measures. The visit was the result of careful preparation by the statistical agencies in both countries over a period of at least six months. Its purpose was to discuss a series of new proposals to deal with statistics on the bilateral merchandise trade, reflecting the growing perplexity over what was happening to the gap, and to its potentially damaging consequences. In Canada, the policy implications of a reconciliation exercise were clearly of great significance, and, under the circumstances, budgetary support for the large scale undertaking involved was readily granted.

The talks between the United States and Canadian statisticians held in Ottawa in August 1971, one week after President Nixon's measures, mirrored at the technical level the Pepin-Stans talks. Together they touched off a process that culminated 16 months later with the publication of the first reconciled figures on trade between the two countries for the benchmark year of 1970.

It is interesting to note that the exercise undertaken by the statisticians responded not only to immediate policy needs but also to a set of problems of a longer term nature. But the point we wish to emphasize is that when, in the fall of 1971, the two ministers agreed to form a United States-Canada Trade Statistics Committee as a means to arrive at broad agreement on a set of figures for the use of negotiators, this converged most fortuitously with a number of other objectives, all dependent on the exact same technical exercise.

Of course, the United States measures of August 1971 and Connally's strictures against Canada gave the final push to the strengthening of joint institutional arrangements, to the financing of the exercise, and to the atmosphere of urgency required for the project to gain an irreversible momentum. Perhaps, to that extent, the events of 1971 were unique. However, it should not be overlooked that, given the long-standing public interest in the problem, and given the fact that technicians had a reasonable idea of what was expected, an eventual solution was in the making.

Since we are discussing the project in the light of its success, it might be worth trying to answer some of the many questions that can be formulated in retrospect. In particular, what essential features of this exercise can be distilled and applied to future situations?

Probably the successful achievement of an agreed set of figures, within such a relatively short span, was due to this unique convergence of an immediate policy need, an

intense technical interest, and the availability of the right technology. It is certain that technology was the midwife.

This is a recipe that cannot easily be duplicated. By mid-1971, statisticians in both countries were ready to try out this exercise. They had been discussing it for some time and they knew how they were going to proceed. They were aware of the techniques that were available in order to bring the exercise to a successful conclusion. In fact, immediately after the meeting in August 1971 a detailed outline of what had to be done was drafted, and very little was added to it in the years that followed. That this could be done at short notice indicated how far statisticians had thought about the problem and how aware they were of the means available to solve it.

It should not be ignored that for the exercise to be successful it had to be conducted in a strict atmosphere of scientific objectivity. Indeed, it required, paradoxically, that statisticians leave aside the purpose of the figures and throughout the exercise consider the differences solely as an intellectual puzzle. Had statisticians approached the problem otherwise, and attempted to explain the gap from what they understood to be their country's negotiating position, the chances of agreeing would have been seriously compromised. As it turned out, at the technical level it became a pure problem of statistics, with officers of both countries organized as a single research team.

Both sides felt that they had reached the right stage in their ability to use the techniques required to manipulate large masses of data by computer. It was this which made possible the reconciliation of the figures at the level of detail required by the complex commercial relations between the United States and Canada. This point should not be overlooked. Previously, even though the number of figures was somewhat smaller, it nevertheless presented an almost insuperable obstacle to a detailed study. At the time when the exercise was conducted, over 10 million figures were involved, and, of course, if they could not be organized, manipulated, and displayed by computer, the chances of a successful reconciliation were almost nil.

Statisticians had not only established how they were going to explain the differences, but had recognized that they had to specify a reconciliation procedure, a recipe for dealing with the gap in an almost mechanical way, as soon as the trade or payments figures were published by the United States and Canada. An automated procedure to make the two sets of figures agree was probably the major technical innovation in the work of the United States-Canada Trade Statistics Committee. The computer was totally apolitical . . .

At the outset, neither side could foretell the outcome of the exercise. This may have been a blessing. In a situation where the outcome would not be perceived in the same way by policy makers in both countries, there might be some inhibitions on the part of a participant who foresaw a weakened bargaining position. However, given the nature of this exercise, given the formidable logistic problem of assembling the information, and arriving at a final figure, there just could not be any idea of the final outcome. The very procedure adopted was such that no one had an inkling of what was to happen until the very last moment.

Some 30 people went through figure after figure, document after document, painstakingly and meticulously. They sorted, matched, and tabulated. Differences, whether in one sense or another, were posted, and not until the

final moment did both sides add up these differences to emerge with a reconciled trade balance.

Actually, in a sensitive situation of this sort, the ultimate acceptability of the results rested completely upon their objective and scientific foundation—in short, on their integrity.

In summary, technically this kind of detailed reconciliation could not have been achieved much earlier. The participants combined the immediate objectives with a series of useful by-products. Both, at a very early stage, submerged their national identities and worked together as a single task force.

Just as the statisticians supplemented the objectives of policy makers by other objectives, so the benefits of the exercise extend further than the benefits envisaged at the outset. One benefit was that at the working level the relations between officials in both countries were cemented within a single task force. This has turned out to be a permanent gain. The logic of reconciliation forces the task force to come together at every stage, to adopt a common set of standards in interpreting North American trade with other countries, and to move towards a harmonization of statistical concepts and definitions.

Another benefit, which is still potential but looms larger as the work of reconciliation goes on, is that exporters may be exempted from filing customs documents related to trade between the United States and Canada. It just so happens that in the case of Canada, two-thirds of the total volume of paper filed by exporters is accounted for by exports to the United States, and in the case of the United States the corresponding figure is of the order of two-fifths.

The possibility that there will be an exchange of information that will make such an exemption possible is of enormous consequence. To a great extent, technological developments may, in fact, create such a situation willy-nilly. Multinational corporations for example, are tending to issue one single report on an international transaction, and filing it with the administration of the two countries concerned.

The development of special techniques to deal with the statistical problems described earlier has not been ignored either by statisticians or by trade negotiators in other countries. In fact, it holds a number of possibilities in the context of future rounds of tariff talks. Many of these flounder over statistical differences, and a recipe such as that developed by the United States and Canada in the course of reconciling their trade figures could very well defuse heated discussions.

Thank you, Mr. Chairman.

The Chairman: Thank you, Dr. Ostry. Your paper obviously will be of great assistance to us. I am sure a great deal of time and effort has been put into its preparation. I am particularly pleased that it does not deal only with procedures, but to a large extent with the philosophy, history and background that went into the entire effort.

We now turn directly to the questioning.

Senator Carter: Dr. Ostry has given us a history of the events leading to the formation of the United States-Canada Trade Statistics Committee. This appears to be the product of a crisis, but I gather from what you have said, Dr. Ostry, that is not so. You say the committee

would have been established in any event. Did the crisis atmosphere speed things up at all?

Dr. Ostry: Yes. The point we were trying to make, senator, is that the statisticians had been working on the formation of this committee for some time prior to its being instituted. The major constraint, if there were constraints, was a technological one, and that would have been solved eventually. The set of circumstances which occurred at the policy level gave an enormous impetus to it at that time. That, really, is the point we are trying to make.

Senator Carter: So, the need for this had been recognized quite some time prior to its formation and some machinery had been set up to deal with it, though apparently without much success. I get the impression that they became discouraged and gave up on the idea. Were there any prior attempts at reconciliation?

Dr. Ostry: Yes, indeed. I think perhaps Mr. Carty, who was involved in earlier activity in this regard, can say something on that, and then perhaps Mr. Ryten can add something further.

Mr. E. B. Carty, Special Adviser on Balance of Payments, Statistics Canada: Mr. Chairman, the situation was that some people within the Canadian technical and policy community became disturbed about this in 1963, and the joint ministerial committee instructed that some attempt be made to resolve the problem. This was done from the overall balance of payments point of view. As Mr. Ryten pointed out on the chart, that committee did manage to hold down the growing discrepancy within the broader frame of the balance of payments. The committee was able to identify that the problem largely rested within the measurement of trade. As Dr. Ostry has indicated, trade represented a formidable logistical problem of dealing with many, many millions of documents at a microlevel of examination. This, as Dr. Ostry has indicated, was resolved in 1971 with the added push of the U.S. restrictive measures.

Senator Carter: I gather from the paper and the presentation that this could not have been solved before the advent of the computer.

Dr. Ostry: That is right. The computer was a necessary, but not a sufficient, condition of its solution.

Senator Carter: Yes. What amazes me is that two countries with so much in common as the United States and Canada, in their exchange of trade statistics can come up with such wide discrepancies. Taking Windsor and Detroit as an example, the information fed into that "pipeline" at Windsor comes out totally different at the Detroit end. How is that explained? Does the answer lie in a difference of objectives on the part of each country, or the type of information which each country is seeking to obtain? Does each country strive for different objectives in their forms and data?

Dr. Ostry: Perhaps Mr. Ryten can deal with that from the customs forms point of view.

Mr. Ryten: Mr. Chairman, a problem does arise with the customs origin of the documents. The problem does not lie in the proximity of Windsor to Detroit. The problem arising from the customs origin of documents is that the revenue authorities are very interested in the import side of the collection of documents as they have to do with revenue; exports, on the other hand, do not affect revenue

and as a result are not subject to the same degree of scrutiny and control that applies to imports. However, when you compare the figures, what you compare is the exports of one country, which are, let's say, lightly controlled, with the imports of the other, which are heavily controlled. Because exports are not subject to a high degree of inspection, many exports go unreported. This results in one of the most fundamental weaknesses in the collection of documents from a statistical point of view.

It was found that in the case of the U.S., half a billion dollars of exports were not recorded at all and in our own case something of the order of \$180 million worth of exports went by unnoticed. In other words, there were no documents accompanying those exports.

Senator Carter: The reason, then, lies in the extent of control?

Dr. Ostry: The source of the data is an administrative source, and the administrative incentive on the import side is revenue-based. There is no real administrative incentive with respect to exports. That is really the nub of the thing. It is not a statistical exercise, *au fond*, but rather an administrative exercise.

Senator Carter: Yes, I understand that. There are no basic differences, then, in the types of data that each country is interested in obtaining. Rather, we are interested in obtaining data on the revenue side and so is the United States.

Dr. Ostry: Both countries have an interest in the data on the revenue side.

Senator Carter: This problem could not have been solved prior to the advent of the computer. Apparently, you needed the computer to deal with the great mass of data involved. In addition, without the computer you could not have treated it as a mathematical problem. In other words, you could not have eliminated the self-interest of the two countries involved.

Dr. Ostry: Well, we would have had to negotiate some agreement in that respect.

Senator Carter: You worked out some reconciliation procedures. I presume these are by way of mathematical formulae which you apply to the different types of trade. Is that correct?

Mr. Ryten: Partly, senator. We did not eliminate the need to look at the specific documents. What the computer did for us was to identify those areas where fundamental differences occurred. It enabled us to select immediately the documents that corresponded to the areas where the major problems were to be found. This was not only in reference to 1970. What we established was that these problems were inherent in the collection of trade statistics and, therefore, would occur in 1971, 1972 and future years. In addition, there was also, as you suggested, a purely statistical procedure to estimate the missing data.

Senator Carter: The formulae still do not seem to be working all that well. We still seem to be coming up with different figures which each country revises after looking at them.

Dr. Ostry: We are still not publishing the reconciliation figures on a current basis. The purpose of the exercise was to conduct a benchmark experiment in 1970. That was published as the first report. The purpose of that was not

simply to achieve reconciliation, but rather to establish a major strategy and to discover the source of errors which would allow us to find out whether these were peculiar to 1970 or were, in fact, a continuing pattern. The 1971 and 1972 exercises confirmed that the 1970 exercise was not *sui generis* but was, in fact, the basis for a continuing reconciliation. We are now catching up; we have just now released the preliminary reconciliation for 1973. We hope within a reasonable period of time to be on a current basis so that we will be publishing the same figures.

Mr. Ryten: If I might supplement Dr. Ostry's remarks, let me add that reconciliation, as it stands now, does not prevent both countries from publishing different figures. It tells each country what to do once each has published its figures, in order to get to a reconciled set of figures, it will be only at a second or third stage that we hope to succeed in actually coming out with figures that are sufficiently close to each other to be taken as identical.

Senator Carter: It becomes a mathematical problem. The United States publish their figures on the auto pact and Canada publishes its figures on the auto pact; you take the formula and the computer works out what the true reconciled figure should be. Did I understand you to say that 1971 was a sort of base year?

Dr. Ostry: 1970 was the benchmark year.

Senator Carter: That is the benchmark year and you relate all others to that?

Dr. Ostry: No. We relate the findings of the 1970 reconciliation to subsequent reconciliations. I think the point we are making might be amplified a bit.

Mr. Ryten: Perhaps I might bring to your attention a release that comes out immediately after the official figures on automotive products come out, which is agreed to by both countries and constitutes a unique set of figures. It is one area where I would say reconciliation has been sufficiently successful to allow the agreed figures to follow the official figures by a matter of weeks.

Senator Carter: In the meantime the published figures will give rise to tensions. I have been talking with our friends south of the border and they are fully convinced that Canada is getting a "steal" from them on the auto pact. I am sure that the labour unions in the United States have the same idea. What more can we do to eliminate that? Are there any more procedures?

Dr. Ostry: I do not think the purpose of the reconciled figures is to do other than focus the discussion on real flows and not on statistical discrepancies. I am not sure whether your friends are saying that there is something wrong with the figures, or whether there is a genuine policy difference, or a different perception of the facts.

The Chairman: Perhaps I might try to put the question in the way I think Senator Carter intends it. Starting with your benchmark year, 1970, you did have a discrepancy, and as reconciled it came back to 1.4. As this exercise has proceeded and we now look at the 1973 figures, we see that Canada's published figure is 0.6 and the United States' figure is 2.6; the reconciliation is 1.2. My interpretation of what Senator Carter is suggesting is that this discrepancy is, in effect, growing as between the two countries, and this exacerbates the feeling in the United States, so we are coming up with a reconciliation. To go back to your introduction and your reference to integrity and so on, and the

fact that this is, in effect, an intellectual or statistical puzzle, the overtone of the political situation is still very much in evidence because of this widening gap. I think perhaps that is the thrust of Senator Carter's question.

Mr. Carty: Perhaps I should not be speaking for you on this, Dr. Ostry, but my understanding of it is that at the moment we have a reconciliation at an annual level, but trade figures come out monthly. It is hoped that in due course the figures published first will be of the same general order of magnitude, if not precisely the same. Only when that stage is fully reached will all of the political difficulties that arise from misinformation or different perceptions be resolved but that is a little while off yet.

Dr. Ostry: Exactly. However, that will not remove whatever political difficulties arise. The differing perception is very startling in 1973. If the argument in the U.S. is that there is a very large surplus, I would say there is a surplus which is a lot smaller than their published figures present. If the surplus *per se* is a matter of concern, that is a policy matter and nothing in the reconciliation exercise will change its reality. But it will allow the policymakers to focus on the real dimensions of the problem and not on a combination of reality and statistical error.

Senator Carter: Thank you, Mr. Chairman. That is all I will ask for now, although I have some other questions.

The Chairman: Perhaps we will come back to you later. It is now 10.15.

Senator Cameron: I wanted to be sure I understood this correctly. I understood you to say that there was about \$150 million to \$200 million of exports to the United States that were not recorded and \$500 million of exports from the United States to Canada not recorded. Does that not mean the figures we had before were almost meaningless?

Dr. Ostry: They had very large errors.

Senator Cameron: We hope that as a result of our late unlamented friend Mr. Connally's confrontation with Mr. Benson we are getting these figures. Have you any assurance that we are getting accurate figures today, granted that the imports to one country and the exports from the other are not necessarily statistically the same. If our figures are to be meaningful at all, should we not have the complete record?

Dr. Ostry: In principle it would be desirable to have the complete record of the exports. In practice it is simply not feasible, because they are administrative records, and we have suggested there is no real incentive to count them fully. The objective of the exercise is to permit us to do one of two things: to make adjustments of a statistical nature based on a better set of records, which are the import records; or, the ultimate implication, to explore—indeed we may be forced into this—the possibility of abandoning an incomplete set of export records and agreeing that we use only one set of records. We are saying that this is a possibility to be explored, or that it may in fact happen without our wanting it to happen, because of the growing development of multinational corporations with unique sets of records.

Senator Cameron: Who makes the decision on what is going to be a relevant figure and what is not?

Dr. Ostry: Since the export of the United States to us is captured as an import by us, and since there is reasonable certainty that the import coverage is adequate—although

there are some problems with respect to the measure that is used—our safeguard is that the measure of our imports measures better their exports. We know, of course, that the export figures are bound to be less efficient. Am I over-simplifying it?

Mr. Ryten: No, I do not think so. In trade statistics the margin of under-counting is not all that significant. If you consider that our annual exports to all countries are of the order of \$20 billion, and that in all probability our total under-counting is \$200 million, this is not an error that would make the overall statistic unintelligible or useless. However, if we are reasoning in terms of our trade balance with a specific country, then the margin of under-counting by both countries becomes quite important. This is why one of the benefits of this exercise is to enable us to get evidence from the other side to measure by how much we are undercounting our own statistics.

Senator Cameron: It is not as bad as it sounded. There is some evidence as to what is happening.

Mr. Ryten: The finding is that because of the administrative origin of these statistics, import statistics, not just Canadian or U.S., but import statistics at large have better quality and better coverage than export statistics. Countries will have to learn how to live with this deficiency and to make adjustments to overcome it.

Senator Lapointe: Do you think that Canadian statistics were nearer the reconciliation figures than the U.S. statistics?

Dr. Ostry: Yes, indeed. We came off better on that one.

Senator Lapointe: Apart from merchandise trade, did you deal with things like travel expenditures and dividends and so on?

Dr. Ostry: Not in this exercise. I would like Mr. Carty to speak to that.

Mr. Carty: Travel statistics are special because they have been collected for many years through a joint arrangement worked out by the two countries. There is no problem, really, of reconciliation caused by them. The other invisibles, the other service transactions were reconciled as a separate exercise but building on the trade statistics. The statisticians from the two countries examined their estimates, assessed the quality and reached conclusions about each individual item. There is a press release and we could make it available to you.

The Chairman: It would be useful.

Dr. Ostry: After the reconciliation of the trade statistics, the balance of payments statisticians met and reached agreement on the reconciliation of the rest of the current balance. That took place immediately after the benchmark reconciliation but not as part of the trade exercise. We will certainly provide you with the balance of payments material.

The Chairman: Thank you very much.

Senator Carter: Do you have a separate set of formulae for invisible trade—insurance, capital flows and that sort of thing?

Mr. Carty: Because of the nature of surveys of invisibles, the procedures are necessarily different from the merchandise counts that you make at the border. It is not a computer process. The number of items of information is

much smaller. But the statisticians sit down with their records on each side, examine them and agree on what basis one figure is better than another. Indeed, for many years there has been some exchange of data so that Canada has obtained directly from the United States information on certain types of transactions. It would be very difficult, for example, for Canada to collect here the amount of pensions paid to Canadians by Americans; but it is quite easy to get that information from the American authorities. Similarly, we provide that sort of data to the United States.

Dr. Ostry: I should like to emphasize at this point, because I think it is important, that the working relations with our counterparts in the United States have been superb. I mean the amount of goodwill and co-operation on this particular exercise is, in my view, remarkable, and one would hope that that kind of spirit is extended—and I am sure it is—in other kinds of relations, to the whole nexus of relationships we have with our professional colleagues in the United States.

The Chairman: I think that is a very interesting point, because in answer to an earlier question you said, "Well, we would have had to negotiate." I therefore interpret your last remark to mean that you do not regard yourselves as having been in any kind of negotiation at all.

Dr. Ostry: Not at all. There was a spirit of complete professionalism to achieve the conclusion of this exercise in an objective way.

The Chairman: Thank you very much.

Senator Macnaughton: Mr. Chairman, 100 years ago when I was at McGill Professor Leacock was head of the Department of Economics and he said, "I don't know what 'statistics' means so, therefore, I won't teach it." I am very glad to see that at long last the department has modernized itself with such a distinguished graduate as Dr. Ostry. As a consequence of this lack of knowledge, I have only a simple question. Is there any move towards standardization of documentation in transport or trade? It seems to me that that would be step one.

Dr. Ostry: Perhaps you would find it interesting if Mr. Ryten were to give some description of that, and of our own experiment with our customs people.

Mr. Ryten: I don't know about the latter, because I think that might get us into a different subject, but on the former, there are two types of attempts at standardization. One is on an international basis. It is being conducted right now in Brussels. Both the United States and Canada are participants. The idea is to have a single document which will accompany the merchandise in an international transaction. Carbon copies of it will serve the exporter, the carrier, the importer and the inland carrier.

The fact that both Canada and the United States are represented at the meetings and discussions in Brussels has ensured that our own experience has become an element in the decisions which will eventually be taken by this international body, the Customs Co-operation Council.

In addition, we have been thinking of what possibilities there are between the two North American countries of standardizing documents, if the broader, international, attempt does not prove to be fruitful.

Senator Macnaughton: Thank you.

Senator Lapointe: Are there differences in philosophy between statisticians according to the different universities at which they have studied or according to the countries they come from?

Dr. Ostry: I would not call them philosophical differences. One of the things which emerged from this is that there were conceptual differences. There were differences in definition and part of the reconciliation exercise was a yielding on both sides with respect to these differences. I don't think they are related to differing philosophies. They are related to differing practices and differing customs in different countries, and it was necessary to reach agreement on these problems of definition as well as on the seeking out of actual errors.

Mr. Ryten: If I may just supplement that with one remark. The trade statistics of the United States and the trade statistics of Canada are related to the concepts that Canada and the United States each use to measure domestic flows. They are more related to their own production statistics or to their own transportation statistics than to each other. It is very difficult to take two sets of statistics, each in their own national context, and to say, "Let us agree," because in order to agree you are in fact taking them out of their country's definitions, their country's concepts, their country's way of measuring things.

So, in ensuring the success of this exercise, we had to take decisions on neutral grounds. We both had to agree to change our definitions so that we could agree on the statistics.

Senator Lapointe: What is your answer when someone says that statisticians are the biggest liars in the world?

The Chairman: Why don't you give that to one of your colleagues, doctor?

Dr. Ostry: I view that more in pity than in anger. How is that?

The Chairman: I gave you time to think of your answer.

Senator Macnaughton: It is still a quasi-science.

Mr. Ryten: I would say that it is difficult to make two liars agree!

Senator Carter: Mr. Chairman, at the very beginning I think you told Dr. Ostry that the purpose of this committee was to find the how, when, where, why, what and a few other things. I do not know if we have covered all that you outlined to us there, but there are just one or two points I would like to pursue a little further.

Dr. Ostry said that the success we have had so far is due to the fact that we approached the problem purely as a mathematical or statistical one, and had it been approached from the standpoint of the national interest of the two countries involved, there would be no possibility of getting very far because of the differences in the national interest. I would like to look into the future a bit, or ask Dr. Ostry to do it for us. Does she see any refinements of this process in the future and does she see any problems connected with them that are likely to arise in the future that would require political solutions? I am not talking about policy, but about problems arising out of the process, that would require political solutions rather than mathematical solutions.

Dr. Ostry: I hope that this procedure will eventually reach a stage where we are on a current basis. I do not

foresee any major problems with that. There is, I suppose, a remote possibility that there would be a budgetary withdrawal, or something, which would slow our work down, but that seems to me to be extremely unlikely.

Let me backtrack for a minute, because I think perhaps I have been misunderstood. I said that the exercise was viewed at differing levels with differing perceptions, and that at the technical level it was viewed as a technical problem.

It is perfectly possible that one could have reached a reconciliation between statisticians of a different sort—not a different sort of statistician, but a different sort of reconciliation—in which the aggregate approach, the conceptual approach, all in good faith, were agreed upon, and a set of figures published. Now, that is without implying that they were negotiating or representing national interests. The reason I think that that would have been a far less acceptable solution is that it could have been reopened at any point in time. It could have been said, “We have changed our minds. We now want to get into the nitty gritty.” But once our agreement was arrived at, in a totally detached and neutral way, and sent to the computer, that prevented backtracking and saying, “Sorry, the ball game is over because we have now changed our minds.” That is why, unless I do not foresee something which is visible to you, but not to me, I think it would be extraordinarily difficult now for the agreement to be washed away.

Senator Carter: But it was set up when relations were pretty hot between the two countries, at the time of Connally's high-handed tactics and Nixon's protectionist restrictive trade measures, and all these things; but it has succeeded in cooling off that hot relationship between the two countries.

Dr. Ostry: I am not sure. The objective was to arrive at a more precise estimate of very vital areas of mutual interest. The reality of the situation was that there still might be very serious policy problems, but at least we will be forced to deal with a mutually agreed-upon set of facts. I suppose that is all. I mean, there is no way that the statistics themselves can change reality. One hopes they can mirror it without undue error. That is all they can do.

Senator Carter: Yes, and without emotions based on wrong interpretations.

The Chairman: I suppose one of the really fundamental necessities in your production is the almost immediate release of this information. Are you satisfied about that at the moment? Are you working towards more needed releases? I understand you to say, Mr. Ryten, that you are talking about, you hope, almost monthly reporting on commercial accounts, and so on. Are we at that stage?

Dr. Ostry: I am not sure I understand your question. The simultaneous release of information?

The Chairman: Yes.

Dr. Ostry: Yes. We certainly are working towards that. I am not sure what the schedule is.

Mr. Ryten: It is for quarterly reconciliation, not monthly. The problems of agreeing on monthly figures would be formidable at this point in time, but we think that we have the techniques to reconcile on a quarterly basis. Our schedule is to start this by the first quarter of next year.

The Chairman: That is a very interesting piece of information.

Mr. Ryten: It is a hope.

Senator Cameron: In view of the critical role of statistics as a tool for decision-making and policy formulation, time is of the essence.

Dr. Ostry: Yes.

Senator Cameron: I remember we had Statistics Canada before our Science Policy Committee about three years ago and we registered a very strong complaint at that time about getting statistics that were two years out of date, and it was admitted that these were useless, literally, in many cases. I believe there has been very great improvement since that time. But now, with the role of the computer in this area, are you satisfied with the progress you are making, and do you see a time frame in which we will get statistics sufficiently rapidly that they will be much more valuable, even if they are six months late, in formulating decisions and policies?

Dr. Ostry: Certainly it is a matter of enormous concern to us to produce more timely statistics, and the computer, everybody hoped, would be a great aid in this. There is a terrible period when the computer acts almost perversely, because one finds out that it requires a much different level of management to deal with it. As you know, we have fourth generation computers and first generation people still handling them. However, we are moving forward, and in this instance, with respect to trade statistics, we are dependent on administrative data. But there are plans well under way for a computerization of that whole operation. Linked with that, there are plans also underway to have a very closely knit working relationship between Statistics Canada and Customs at the ports of entry, to ensure that the coding of customs documents is accurate. When that is in full bloom, one consequence of it, one hopes, will be more timely and better data.

Introduction of automation, however, is a very painful process.

Mr. Ryten: May I supplement these remarks with one word in defence of the computer?

Dr. Ostry: You are fourth generation, not first generation.

Mr. Ryten: In the case of commercial statistics the computer actually processes them in something like 48 hours. However, the assistance we get from the post office in collecting three quarters of a million documents from all 360 ports in the country, is such that it delays our production by something like two weeks.

Senator Macnaughton: Now that we are on the way to solving the problem with the United States, what about other countries? Do you have similar problems there?

Dr. Ostry: Oh yes. We are already beginning to move in that direction. We have made a beginning with the United Nations Statistical Commission, and we have had discussions with other international agencies. We have also had negotiations with Mexico which have been very successful.

Senator Lapointe: Were you the ones who measured the effects of the DISC policy, for example, You said they were not too serious.

Mr. Carty: I believe that was a survey carried out by the Department of Industry, Trade and Commerce.

Senator Carter: One last question on this. This is with regard to the task force. We did not explore this. Is it at work all the time, or does it have to wait for information to be submitted? And are you there in the offices yourselves, getting this information as it becomes available?

Dr. Ostry: The Task Force is a permanent working group with its people working in their respective countries and which meets regularly.

Senator Carter: In all phases?

Dr. Ostry: Yes.

Mr. Ryten: In addition it speaks to itself over the telephone for something like 10 hours a week!

The Chairman: Honourable senators, we have done pretty well. It is now 10.40 a.m. You can see, Dr. Ostry, that the Chairman's inability to curtail the questioning is an indication of the great interest we have in your subject. We are grateful to all of you and thank you very much.

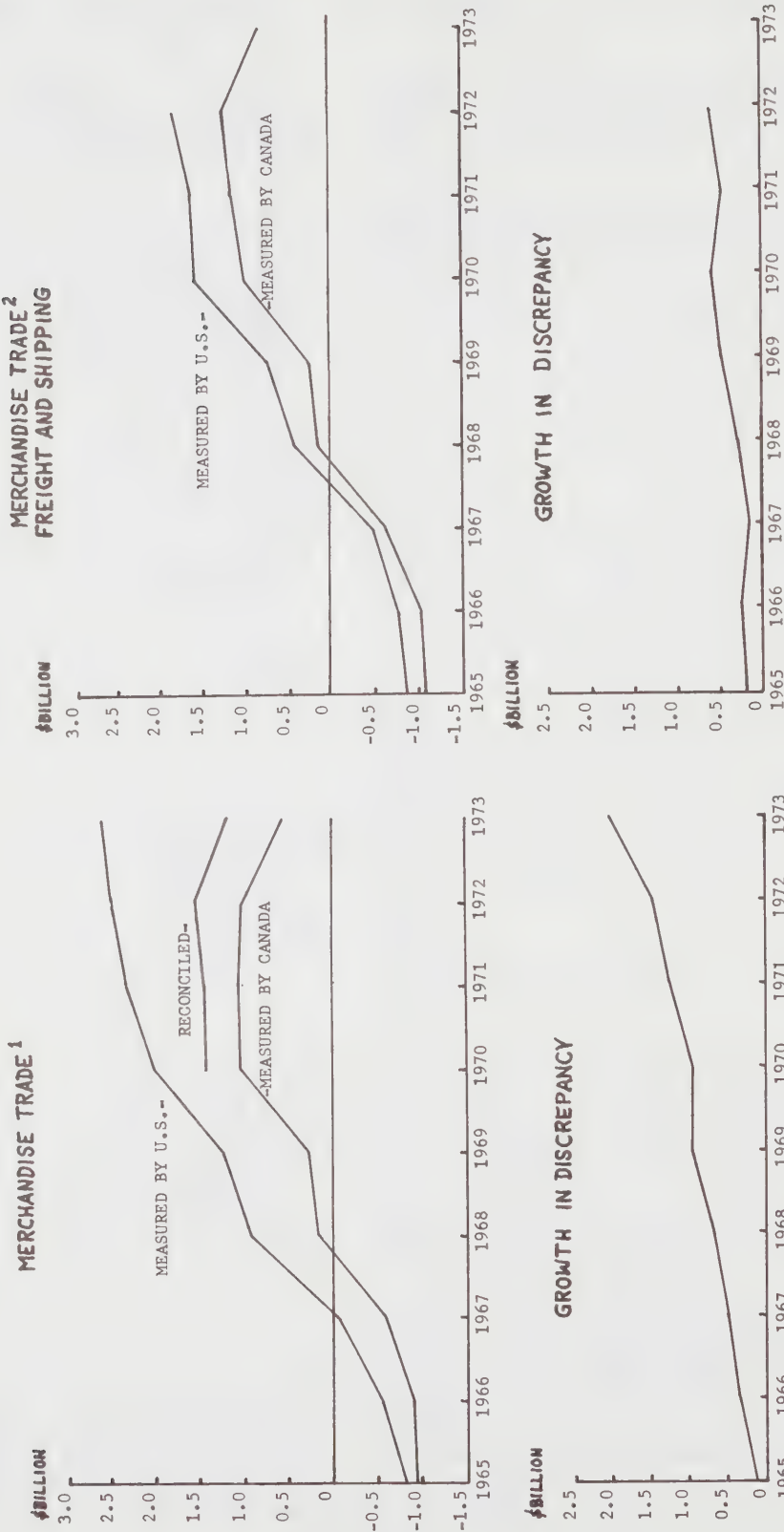
Dr. Ostry: We do wish to thank you for your interest. We have very much enjoyed it. Thank you.

Senator Cameron: Mr. Chairman, we could profit by a longer session at some other time.

The Chairman: I certainly think so. Thank you.

The committee adjourned.

A COMPARISON OF TWO MEASURES OF THE
CANADIAN BILATERAL TRADE BALANCE WITH THE UNITED STATES



CH14823
-E71



Second Session—Twenty-Ninth Parliament

1974

Canada *Senate*

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*



I N D E X

OF PROCEEDINGS

(Issues Nos. 1 to 4 inclusive)

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INDEX

Aird, Hon. John B., Senator (Toronto), Committee Chairman

Canadian relations with U.S.A. 1:5, 8-9, 12-4, 18-9; 3:5, 7, 13, 18-9, 25; 4:5-6, 8-13

Auto Pact

See

Automotive Products Agreement

Automotive Products Agreement

Balance of trade 1:16-7

Free trade 3:12, 15

Negotiate several products 2:15-6

Official figures, reconciled 4:9

Workers' rates increase 3:15

Cameron, Hon. Donald, Senator (Banff)

Canadian relations with U.S.A. 1:10-1; 2:13-6, 20; 3:19-20; 4:10, 12-3

Canada-United States

Arctic sovereignty 1:11-2

Automobile industry unions, competition 3:14-5

Balance of payments, trade 1:7, 10, 13

Measurements, statistics 4:5-10, 12-4

China, People's Republic 1:14, 18-9

Consultation 1:14-5, 19

Continental policy 1:16; 2:8

Documents, standardization 4:11

Energy crisis 1:6-7, 13; 2:7

Gas exportation 2:19; 3:13-4

Great Lakes pollution 1:17

Industrial strategy 3:13

Information exchange 1:10; 3:23-5

Integration 3:11, 16

Intergovernmental bodies 1:7-8, 34-9

Iron ore 2:16

Japan, relations 1:7

Minister's statement 1:5-8

NATO, relations 1:7

OECD, co-operation 2:19

Offshore limit, Law of Sea 1:11-2

Oil

Canada, position 3:10

Prices increase 1:7, 10; 2:19

Political unification 3:9-10

Productivity, workers 3:18-9

Relations, functioning 1:5

Resources, energy 2:8, 10-1; 3:12-2, 22-3

Subsidiaries 3:23

Third World, responsibilities 2:17-8

Treaties, agreements 1:20-33

U.S. companies, closed down, Canada 2:15-7

See also

Automobile Products Agreement

Canadian Identity

European Economic Community

Foreign policy

International System

Trade

United States

Canadian Identity

National independence 3:6-7

Objectives, economic, environmental 1:7

Carter, Hon. Chesley, Senator (The Grand Banks)

Canadian relations with U.S.A. 1:9-11; 2:10, 19; 3:12-4; 4:8-13

Carly, E. B., Special Adviser on Balance of Payments, Statistics Canada

Canada-United States relations 4:8, 10, 13

Common Market

See

European Economic Community

Commonwealth

Trading framework 3:5, 11

Connolly, Hon. John J., Senator (Ottawa West)

Canadian relations with U.S.A. 1:10, 12, 15-6; 2:6, 11, 14, 16-8

Council on Foreign Relations

Operations 2:5

Croll, Hon. David, Senator (Toronto-Spadina)

Canadian relations with U.S.A. 3:15-7, 19

Diebold, William, Jr., Council on Foreign Relations, New York, N.Y.

Canada-U.S. relations

Discussion 2:8-20

Statement 2:5-7

Curriculum vitae 2:5

The United States and the Industrial World 2:5

EEC

See also

European Economic Community

Economy

Control, non-government 3:15-6, 19-20

Resource exports, manufactured imports 3:17-8

European Economic Community

Canada-U.S. relations 1:7

Program disintegration 3:9, 11

Trade

Barriers 2:18-9

Divisive force 3:5, 7

Free, procedure 3:21

Multilateral 3:6

Fishing

Conservation 1:12

Foreign Affairs Senate Standing Committee

Approach proposed 1:18

Foreign policy

China, People's Republic, recognition procedure 1:14, 18-9

Embassy, consular missions, role, U.S.A. 1:8, 15-6

Foreign Investment Review Act 3:9-10

Japan 1:7

Policy 1:8-9; 2:6-7

Review, implications 1:6

See also

Sharp, Hon. Mitchell

Foreign Policy for Canadians

Sharp, Hon. Mitchell 1:18

Grosart, Hon. Allister, Senator (Pickering) Committee Deputy Chairman

Canadian relations with U.S.A. 1:12, 14-7, 19; 2:5, 7-8, 12-6; 3:10-2, 21-2, 25

International Perspectives

Sharp, Hon. Mitchell, quote 1:16-8

International System

Changes, politics, trade, resource attitudes 1:5-7

Johnson, Dr. Harry, Professor Economics, University of Chicago and London School of Economics

Canada-United States relations

Discussion 3:7-25

Statement 3:5-6

Curriculum vitae 3:5

Laird, Hon. Keith, Senator (Windsor)

Canadian relations with U.S.A. 1:17

Lapointe, Hon. Renaude, Senator (Mille Isles)

Canadian relations with U.S.A. 3:12, 18; 4:10-2

Law of the Sea Conference

Canada, 200 mile offshore limit 1:11-2

McElman, Hon. Charles, Senator (Nashwaak Valley)

Canadian relations with U.S.A. 2:7-9, 19; 3:22-5

MacLellan, K. W., Director, U.S.A. Division, External Affairs Dept.

Detroit, air pollution 1:17

McNamara, Hon. William, Senator (Winnipeg)

Canadian relations with U.S.A. 1:17-8

Macnaughton, Hon. Alan, Senator (Sorel)

Canadian relations with U.S.A. 1:11; 3:7-10, 20; 4:5, 11-2

NATO

See

North Atlantic Treaty Organization

North Atlantic Treaty Organization

Canada-U.S. relations 1:7

Options for the Future

Sharp, Hon. Mitchell 1:5; 2:6-7

Organization for Economic Co-operation and Development (OECD)

See

Canada-United States

Ostry, Dr. Sylvia, Chief Statistician, Statistics Canada

Canada-United States relations

Discussion 4:8-13

Statement 4:5-8

Curriculum vitae 4:5

Rowe, Hon. Frederick W., Senator (Lewisporte)

Canadian relations with U.S.A. 2:14, 16-7

Ryten, Jacob, Director, External Trade Division, Statistics Canada

Canada-United States relations 4:6, 8-13

Sharp, Hon. Mitchell, Secretary of State for External Affairs

Canada-United States relations

Discussion 1:9-19

Policy 1:9

Statement 1:5-8

Foreign Policy for Canadians 1:18

International Perspectives, quote 1:16-8

Options for the Future 1:5; 2:6-7

Trade

Blocism 3:11

Canada-U.S.

Balance disparities 1:10; 4:14

Invisible trade 4:10-1

North-South 3:15

Restrictive measures, 1971 4:6-7

Statisticians, conceptual differences 4:11

Trade Statistics Committee 4:7-8

Commonwealth 3:5, 11

Diversification 1:16; 2:8-9, 17

European Economic Community 2:18-9; 3:5-7

Free, Canada-U.S. 1:9; 2:9-10, 13, 16; 3:5-12, 20-1

Automotive Products Agreement 3:12, 15

Raw materials, resources 2:12-3; 3:7, 12-3

Relocation industry 3:21-2

Subsidiaries, effect 3:12

Multilateral 3:6

See also

Automotive Products Agreement

Canada-United States

Trade Statistics Committee

See

Trade, Canada-U.S.

United States

Canada, awareness 2:14, 19-20; 3:23-5

EEC, relationship 1:14

Foreign investment 2:11-2

Multinational corporations

Canada, closed down 2:15-7

Legislation extended 2:11, 17

New Economic Policy 1:7

Non-governmental influence 2:14-5

Policy, relations 2:7

Tariffs 3:17, 22

van Roggen, Hon. George, Senator (Vancouver-Point Grey)

Canadian relations with U.S.A. 1:8-9, 11-2; 2:12-3, 18-9

Yuzyk, Hon. Paul, Senator (Fort Garry)

Canadian relations with U.S.A. 1:12, 18-9

Appendices

Issue No. 1

A—List Treaties and Agreements entered between Canada and United States in force Feb. 1, 1974 1:4, 20-33

B—List Canada-United States Inter-governmental Bodies 1:4, 34-9

Issue No. 4

A—Comparison two Measures Canadian Bilateral Trade Balance with United States 4:4, 14

Witnesses

—Carty, E. B., Special Adviser, Balance of Payments, Statistics Canada

—Diebold, William, Jr., Council on Foreign Relations, New York, N.Y.

—Johnson, Dr. Harry, Professor Economics, University of Chicago and London School of Economics

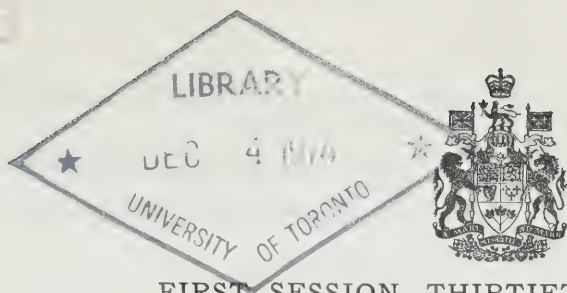
—MacLellan, K. W., Director, U.S.A. Division, External Affairs Dept.

—Ostry, Dr. Sylvia, Chief Statistician, Statistics Canada

—Ryten, Jacob, Director, External Trade Division, Statistics Canada

—Sharp, Hon. Mitchell, Secretary of State for External Affairs

For pagination see Index by alphabetical order



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT

1974

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON **FOREIGN AFFAIRS**

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 1

THURSDAY, NOVEMBER 7, 1974

Complete Proceedings on Bill S-12, intituled:
"An Act to amend the Immigration Act"

REPORT OF THE COMMITTEE

(Witnesses:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Aird	Hastings
Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, of November 5, 1974:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Laird, seconded by the Honourable Senator Carter, for the second reading of the Bill S-12, intituled: “An Act to amend the Immigration Act”.

After debate, and—

The question being put on the motion, it was—
Resolved in the Affirmative, on division.

The Bill was then read the second time, on division.

The Honourable Senator Laird moved, seconded by the Honourable Senator Carter, that the Bill be referred to the Standing Senate Committee on Foreign Affairs.

The question being put on the motion, it was—

Resolved in the affirmative.”

ROBERT FORTIER,

Clerk of the Senate

Minutes of Proceedings

Thursday, November 7, 1974.

(3)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 11.05 on this day.

Present: The Honourable Senators Asselin, Carter, Croll, Flynn, Grosart, Lafond, Laird, Macnaughton, McNamara, Rowe, Sparrow, van Roggen and Yuzyk. (13)

Present but not of the Committee: The Honourable Senators Desruisseaux, Haig, Molson, Petten and Thompson.

In attendance: Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel.

The Committee proceeded to its consideration of Bill S-12; An Act to amend the Immigration Act.

Witnesses: The Honourable Robert Andras, Minister of Manpower and Immigration; Mr. Warren Black, Director of Legal Services; Mr. J. St-Onge, Manager, Inquiries and Enforcement Control Section, Home Branch; and Mr. W. K. Bell, Director, Programs and Procedures Branch.

Following discussion, clause 1 of the Bill, the title of the Bill and the Bill were adopted and the Chairman was instructed to report the Bill to the Senate without amendment.

On motion of Senator Macnaughton, *Ordered*, that notwithstanding the resolution passed on October 24, 1974 respecting the printing of Proceedings, this Committee print 800 copies in English and 300 copies in French of its Proceedings in relation to Bill S-12.

At 12.20 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

Report of the Committee

Thursday, November 7, 1974.

The Standing Senate Committee on Foreign Affairs to which was referred Bill S-12, intituled: "An Act to amend the Immigration Act" has, in obedience to the order of reference of Tuesday, November 5, 1974, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

George C. van Roggen,
Chairman.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, November 7, 1974

The Standing Senate Committee on Foreign Affairs, to which was referred Bill S-12, An Act to amend the Immigration Act, met this day at 11 a.m. to give consideration to the bill.

Senator George van Roggen (Chairman) in the Chair.

The Chairman: Honourable senators, we now turn to consideration of Bill S-12, An Act to amend the Immigration Act. We are fortunate in that the minister, the Honourable Mr. Andras, was able to get away from the Cabinet meeting for a short time this morning to appear before us and answer any questions members of the committee have in connection with this bill. Since the minister's time is constrained, I am going to ask him to lead off, following which we can then turn to the departmental officials for further information.

Have you an opening statement you wish to make, Mr. Minister?

Hon. Robert Andras Minister of Manpower and Immigration: I will just make some general comments, Mr. Chairman.

Honourable senators, it is my good fortune to get loose from Cabinet and join this august company, which I always enjoy. It has been about a year since I was last before you, but I have had an opportunity and, I might say, the pleasure of exchanging views on other matters on prior occasions.

Bill S-12 is, quantitatively, a small bill in the sense that it is not a voluminous document. However, it does have considerable significance both in terms of importance and in terms of timing.

As a government, we have been embarrassed for some time by a rather significant loophole in our legal structure to maintain a reasonable degree of control over certain aspects of immigration. This bill addresses itself to one such particular loophole, that being the lack of a significant deterrent to people who, having been deported from Canada for good and sufficient reason, checked out by the courts and the various appeal bodies, return to Canada. This, of course, is frowned upon under the present Immigration Act, but there is no deterrent provided under the act. I am not a lawyer, but I am advised—and I see the practical wisdom of that advice—that on examination of the Immigration Act it certainly indicates our distaste for people having been deported returning, but that is as far as it goes. It expresses our displeasure, but provides no real method of control, other than finding these people and deporting them again, which is really not much of a discouragement for people who are determined to engage in this practice.

This does not involve a large number of people in quantitative terms, or even proportionate to the number of people who are in fact deported from Canada. For that reason, I will be addressing myself not so much to the number of people involved in abusing this loophole but in the type of people.

In the first eight months of 1974 128 persons were deported from Canada for the second or third time and, in one case, the seventeenth time, for either entering Canada or attempting to enter Canada without the consent of the minister. In the main, people who do abuse this loophole are, by any standard, people whom we do not want in Canada. Generally speaking, their determination to return to Canada after having been deported is backed up by criminal intentions or criminal action. For that reason we want the power under the Immigration Act to provide a deterrent to these people.

I do not intend to give you the details of all the 128 people who have abused this loophole in the first eight months of 1974 but I do have three cases which I can relate to the committee. I do not claim that they are selected totally at random. They are rather loaded in the illustrative sense. I think it would be unfair of me to give names, so I do not intend to do so. However, if any honourable senator wishes to authenticate my statements, I will be glad to give the names in confidence. As you will no doubt appreciate, we are dealing with individuals and we are a large organization. I hope you will accept that the statements I am about to make have been researched thoroughly.

The first example involves a chap who is a pimp. He was deported first on February 10, 1966, and then deported again on the following dates: November 14, 1966; November 28, 1966; February 29, 1968; March 18, 1968; March 21, 1968; April 9, 1968; October 22, 1968; and on November 27, 1968. For all I know, he may be back in Canada again.

Senator Thompson: Was he deported to the United States?

Hon. Mr. Andras: To the United States, yes.

Senator Yuzyk: Did he make the same crossing on all occasions?

Hon. Mr. Andras: I really do not know how he got back in, senator. This fellow seems to be quite ingenious. In one case, I am told, he beat the escorts back. The escorts took him across the border, or to the border, and after that duty was performed stopped for a cup of coffee, and the story is that he was back before they were.

Another example involves a fellow who is not limited to just pimping but who is also involved in narcotics. He has been in and out of Canada 17 times in 13 years.

I can go through a recitation of the dates, if the committee wishes. Another chap is a small-time criminal, and he has been in and out of Canada on nine occasions.

I am not being facetious. These are the types of situations in which we find ourselves relatively powerless under the act as it now exists, and these are the types of individuals we want to get at.

The government, of course, finds itself subject to a great deal of criticism on many counts, but both the government and myself as Minister of Manpower and Immigration, as well as the Department of Immigration itself, have been the subject of a great deal of criticism respecting immigration, since it is a highly emotional issue, and it is one which I do not treat lightly. In particular, we have been subject to a great deal of criticism by the police forces in Canada, particularly those of Vancouver, Montreal and Toronto where, generally speaking, there are large concentrations of immigrant settlements. While I discounted much of the criticisms, I did go to the police force of Metropolitan Toronto in an attempt to separate the wheat from the chaff, as it were, and I did come to the conclusion that while many of the accusations were both unwarranted and invalid and, in my opinion, denigrated immigrants, which I deplored, there were some such criticisms which were well founded and which warranted action on the part of the government. I gave a commitment, embarrassingly so, about a year or so ago, that in this particular case we would try to plug this loophole by providing a deterrent which, in our opinion, did not exist, for people who, once reported, returned without the permission of the government through the ministerial discretion which I hold. I was rather hoping to have that legislation passed last spring, but events overtook us. I am now in the position of having given that commitment, which is subject, of course, to Parliament's acceptance or rejection, and I am trying to do my part in fulfilling that commitment which, I frankly admit, is long past due. There is no question in my mind as to the necessity of having this loophole plugged.

Accompanying me this morning is Mr. W. K. Bell, Director, Programs and Procedures Branch; Mr. Warren Black, Director, Legal Services; and Mr. J. St-Onge, Manager, Inquiries and Enforcement Controls Section. Mr. Black can deal with the legal intricacies and the reason for approaching this matter in the way we have and, as well, as to why we do not feel there is provision to deal with this matter in the Criminal Code or the Immigration Act, as it now exists, in any other manner. If you wish further amplification of the problems that have developed by virtue of this loophole in the act, Mr. St-Onge can assist you. I think, Mr. Chairman, I have generally indicated why we feel this is a wise and proper recommendation to make to Parliament, and I will be very glad to respond to any questions. For technical detail, I propose to ask my officials to help and, as far I am concerned, having escaped from Cabinet for a while, I am at your disposal. I am totally hopeful that you will explore this issue with me and give me the benefit of your advice on it. I think we are right, but I have learned through experience that it is good to listen and see if there is any recommendation or improvement that can be made.

The Chairman: Thank you very much. Senator Croll?

Senator Croll: Mr. Minister, why have you, for example, not tried this pimp under the Criminal Code? He has entered the country illegally. Why has he not been charged under the Criminal Code?

Hon. Mr. Andras: I think he was charged with being a pimp by the enforcement branch of the provincial government, but on the basis of evading immigration law, I do not know whether we have...

Senator Croll: That was not my question. He is in the country illegally, and my question is, very broadly, that the Criminal Code covers a man who is in the country illegally, and why he is not charged with being in the country illegally, so that if he were to be acquitted, you could come here and say, "Well, it will not work. We need something firmer"? I could understand that. Why has it not been done?

Hon. Mr. Andras: In a way we have determined his illegality and have executed a deportation order in response to a determined illegality; but it has been the advice given to me—and this has existed over many many years, I understand, but I will get Mr. Black to give the legal explanations—that the power does not exist in the current law to charge him. The immigration officer cannot admit a person who has been deported before, and such a person cannot, I understand, be charged with entering Canada by stealth, because unless he is specifically asked the question, or does in fact volunteer the information, when he enters Canada, that he is indeed a deportee, the wording of the act does not make it a criminal offence for him to come in.

Senator Croll: Well, Mr. Minister, over the years I spent practising law, immigration was one of the things I dealt with before I came, you know, to "retirement" down here in the Senate.

Hon. Mr. Andras: I had not noticed the retirement aspects.

Senator Croll: But I recall having to defend people who were charged with being illegally in the country, as a matter of fact in Windsor. We had that quite often there. Mind you, I do not think they ever went to jail, but they got out of the country pretty damned quick; however, they were charged, and could have been convicted. Nobody wanted to feed them; everybody wanted to get them the hell out of there; but they never got caught a second time.

The Chairman: Do you recall the section of the Criminal Code you are referring to?

Senator Croll: We referred to it the other day.

Hon. Mr. Andras: I know my limitations, and with regard to this I would like legal advice, though I could give you a layman's version of it.

The Chairman: I think we might ask Mr. Black to deal with this particular point, before we pass on.

Mr. Warren Black, Director, Legal Services, Department of Manpower and Immigration: Thank you very much, Mr. Chairman. I think, senator, the provision you may be referring to is section 115 of the Criminal Code. I have it in front of me. It says:

Every one who, without lawful excuse, contravenes an Act of the Parliament of Canada by wilfully doing anything that it forbids...

Let us stop there. I think the loophole that Mr. Andras mentioned in the Immigration Act arises from the fact that there is nothing in the Immigration Act that forbids a person from coming into Canada if he has already been deported. All that section 35 says is that an immigration officer shall not admit him. In other words, the act places the burden on the immigration officer, not on the person; and the Department of Justice over the years has taken the view that that will not be a contravention either of section 115 of the Criminal Code, or, for that matter, of section 48 of the Immigration Act that has, I believe, been mentioned.

Senator Asselin: What about section 35 of the Immigration Act? Does that not cover the case?

Mr. Black: Well, section 35 has not created any offence. All that section 35 says—and I will get the correct wording of it—is, “shall not thereafter be admitted”. It is in the passive tense. In other words, the section says to an immigration officer, “You shall not admit a person previously deported.” It does not say to the person, “You shall not come in, as a person who has been previously deported.” That is, I think, where the loophole lies.

Senator Asselin: If you read section 35 together with section 46, you will find that in section 46 you have the offence described very clearly.

Hon. Mr. Andras: That refers to coming into Canada by stealth or false and misleading information. Here again, I am going to rely on the departmental officials, and I will only venture very tentatively into these legal waters; but I am told that because of the wording, “shall not be admitted”, if the chap crosses the border and answers the question, “Are you a deportee? Have you ever been deported from Canada?” untruthfully, and says, “No,” then he would be committing an offence, and we could catch him, probably. If, however, he comes through without being asked, or responds untruthfully, then we cannot make an offence stick; we cannot say he came in by stealth.

May I describe to you at this point the horrendous problem we face, that arises from the fact that we have about 40 million to 42 million foreign visitors a year coming into Canada? Combining that figure of foreign visitors coming to Canada with the figure representing Canadians going back and forth, we have 70 million-odd people crossing the border per year, and there is no way that we can establish a system at the borders of this country which could possibly enable us to screen every person coming in and ask them the kind of questions which would establish whether they were doing so illegally or not. So when they come in by plane, or across the border at Windsor—and, Senator Croll, I used to live there and I know what goes on—really, all you can do is a spot check. For us to establish a police system that would enable us to screen even 10 or 20 per cent of that traffic would give support to objections that the government is adding to bureaucracy, plus raising the implication of establishing what I find is abhorrent, namely, a police state. I think we have to take our chances; but, surely, we do need our tools where we can establish a definite objectionable course of action we can spot.

Senator Croll: With the very large number of cases you have, and the kind of problem it is, you could easily have picked one case on your own terms, banged

it into court, walked back in here, and said, “They threw it out. I haven’t got a case. I need a law.” But with this business of putting law on top of law, we hardly know where we stand.

Hon. Mr. Andras: I never like to cross swords with you, Senator Croll, but it is simply recognizing, I think, that the wording of a section of a law that already exists, on the best legal advice I have been able to get, constitutes a loophole as a result of which we would not get anywhere in court.

Senator Croll: That is what you say, yes. But, after all, do you want me to show you my certificate that I was once allowed to practise law? I can assure you I have some views on this.

Hon. Mr. Andras: I would be sure to put your certificate on top of the pile of certificates of other people who have been visiting me, senator.

Senator Croll: Well, I know you get advice from the Department of Justice, but what they say is not the laws of the Medes and the Persians. They have views on it, of course, and so have we; but that has been there for many, many, many years, and suddenly they come up with this thing. They may be right, but the place to be sure of that view is in the courts. That is my argument.

Senator Asselin: The minister referred a few minutes ago to a few cases of people who came back to Canada ten times, illegally. I would like to ask the legal adviser if these persons have been prosecuted under section 46.

Mr. Black: With great respect, I do not think they could be. I think the problem is that if a person had been asked specifically when he came through the border, “Have you ever been deported?” and if he had said, “No,” then I think section 46(b) would apply.

Senator Asselin: And what about section 48? Does that not close the loophole you are talking about?

Mr. Black: Section 48 is really very similar to section 115 of the Criminal Code, and in answer to that, once again, I would say that I do not think the act prohibits the person from returning, but places the duty on the immigration officer not to admit the person. Section 48 and section 115, I would say, are about the same.

Senator Flynn: This is my point, if I may ask a supplementary question. If you have an order issued under section 35, this order tells the person who is deported, “You are not to remain in Canada, and you are not going to come back.” That is what it says.

Mr. Black: I do not think that is exactly what it says. The order, as I recall, says, at the beginning, something like, “I have decided that you may not come into or remain in Canada as of right, because you are not a Canadian citizen, you do not have Canadian domicile, you are in such-and-such a prohibited class, and I therefore order you to be deported.” The rest of it is just part of the decision. The actual order is in the words, “I order you to be deported,” and I think that it the only authority that a special inquiry officer has under the act, namely, to make an order of deportation. I do not think he can add anything to the

order and say, "You shall not come back." I do not think he has any authority to do that.

Senator Flynn: I cannot see that restriction. After all, it says:

Unless an appeal against such order is allowed, a person against whom a deportation order has been made and who is deported or leaves Canada shall not thereafter be admitted to Canada or allowed to remain in Canada without the consent of the Minister.

That person knows the meaning of the order. Then we go to section 48, and that person certainly violates:

any order or direction lawfully made or given thereunder...

It seems to me that if there is any loophole, we are willing to plug it.

The feeling in the Senate was that there appears to be no justification for not having tried some of the provisions of the act that are presently there, such as proceeding under section 48 and telling that person, "You have been ordered to stay out. In coming back you have violated the order. Therefore you are subject to the penalty provided in section 48." Have you ever tried it?

Mr. Black: I have not been that long with the department, but I understand that over the years the department has been unwilling to try it because of this interpretation. I feel that the law is clear. If you refer to section 48, it says:

order or direction lawfully made...

The only order is the deportation order, and when a person is deported, that is in compliance with the order and there is no further obligation on the person not to return to Canada.

Senator Thompson: Mr. Chairman, first I would like to say I am not a lawyer. I say that with some feeling, because...

Hon. Mr. Andras: I was afraid, senator, you were going to say "with pride."

Senator Thompson: I say that with no humility. I think our laws have been cluttered up by amendments from lawyers. I deplore the suggestion that because the minister is not a lawyer he cannot clarify this. That is what is wrong with our laws. We want amendments that only lawyers can clarify for the people of Canada. Having said that...

Hon. Mr. Andras: That is what we are attempting to do here.

Senator Thompson: ...I am strongly suspicious that this amendment is unnecessary. I agree with Senator Croll and Senator Asselin. Why not try it in the courts? It should have been amended years ago if there is a large loophole.

Secondly, Senator Flynn is talking about the deportation order. Why has that not been clarified—as Senator Yuzyk, who is not a lawyer, has suggested—to add, "You are being deported and if you should return without the sanction of the minister, you are coming back

into Canada by stealth." Would that not cover the whole situation?

Hon. Mr. Andras: As a layman, I suggest with respect, senator, by virtue of the identification of the onus being upon the immigration officer who examines people coming across the border, that it would not hold water for five minutes. You cannot make law by the wording you put on a deportation order that is not supported by the legislation itself.

Senator Thompson: But if you enter by stealth, it is an offence. If you say in the deportation order, "If you return to Canada without the written permission of the minister, you are coming in by stealth,"...

Hon. Mr. Andras: I would simply state—this is not a lawyer's opinion but a layman's—that surely, gentlemen, as legislators, the sacred source of law is in the legislation. There are many people who are criticizing me and the government for making immigration law by regulation change.

What I think is being suggested here goes further down that path of making law by the wording of a specific document accompanying the process of deportation. That is going further than effecting change by regulation rather than by legislation. That is my concern. To take your own argument, there is difficulty in explaining it. Clearly, what we are trying to do, in understandable and unmistakable words, is to say it is an offence punishable by penalty, rather than leave it in the vague limbo in which it now stands.

I do not know why we have not tested it, but I can assure you that the people who want to prevent these kinds of individuals from being in Canada, let alone coming back so many times, have looked at all the possibilities and have made the change on that basis. They tell me that short of testing it in the courts, they have been advised on all counts that it would be impossible, and, incidentally, would flag the loophole for a short period of time and encourage the very traffic we are trying to prevent.

I am simply saying that I find ourselves in agreement here, to have absolute clarity on what this should say and mean, the only difference of opinion being that you feel there is clarity now and I am advised there is not.

Senator Yuzyk: I would like to follow up what Senator Thompson has stated. I spoke on this bill the other evening and referred to the deportation order. That order refers to what the inquiry officer signs. There is reference to section 38 of the Immigration Act. Cannot section 38 be enforced?

Mr. Black: At the bottom of the deportation form there is reference to section 38. That is not part of the order. It used to be on the back of the form, but people complained that they did not know about this, and so we put it on the front. That is not part of the order. It simply advises them of a provision of the Act.

Senator Yuzyk: Cannot section 38 of the Act be enforced, even through the criminal court?

Mr. Black: If an immigration officer admitted a person knowing he had a previous deportation order against him, the immigration officer could be charged under section 48. Admittedly this is a very fine legal point, but

once again I do not think there is any prohibition in the Statute for a person with a previous deportation order to come in.

Senator Laird: Senator Flynn has a good point here. The reference in the form is to section 38. The section presently is section 35.

Senator Yuzyk: Is that a mistake?

Mr. Black: I think that in the revision it has been changed.

Senator Flynn: It might not be a mistake, but it is misleading.

Senator Yuzyk: It is misleading if it does not quote the right section.

Senator Laird: It is an old form.

Senator Flynn: It is 1968.

Mr. Black: It is an older version of the form, but I understand that the special inquiry officers correct them on the spot as they issue them.

The Chairman: It used to be section 38, but it is now section 35.

Senator Yuzyk: You contend that is not enforceable through law?

Mr. Black: The only authority that I think a special inquiry officer has, as Mr. Andras pointed out, is that provided in the act. Section 27(3) says:

...The Special Inquiry Officer shall, upon rendering his decision, make an order for the deportation of such person.

So the only order he can make is, "I order you to be deported." He can order him to be detained under another section.

Senator Flynn: May I read the deportation order in relation to the observation of Senator Thompson? I do not think you could say that if you violate the order you will enter Canada by stealth. Let us forget that. Let us take the order as it is. It says:

I have reached a decision that you may not come into or remain in Canada as of right, in that...

This is the order, "that you may not come into or remain in Canada...". Then, if the man comes in, isn't he violating this order?

Mr. Black: With respect, sir, I do not think that is part of the order.

Senator Flynn: But it is the order.

Mr. Black: It is on a form called the order, but I think the part you read is simply a direct quote from section 27.(2) of the act which says that:

(2) Where the Special Inquiry Officer decides that the person concerned is a person who

(a) may come into or remain in Canada as of right;

et cetera, et cetera.

he shall, upon rendering his decision, admit . . .

So what he is doing in fact is he is starting out to reason his decision. He is saying, first of all, "You are not a person who can come in as of right; you are not a Canadian citizen; you don't have domicile, but you fall into a prohibited class." That is the reasoning which is a sort of prelude to his order. But the actual order is simply an order of deportation and the beginning part of what appears in that document is not, I believe, part of the order.

Senator Flynn: Now you are suggesting that this would be illegal wording?

Mr. Black: No, I am not suggesting that. I am suggesting that that document simply must contain some of the reasoning on which the special inquiry officer based his decision, but that that is not part of the order.

Senator Flynn: I am not worried about the reasons for the order; but I am saying that the wording of the order is that, "You may not come into or remain in Canada..." So, I am telling someone that. But is the minister or the officer authorized to give this order?

Mr. Black: But that is not an order, sir. That is my point. That is the reasoning leading up to the order, and that is based on a direct quote from the statute. I do not think he would simply want to make an order saying, "I want you to be deported" with no advance reasoning.

Senator Flynn: We are not concerned with the reasons here; but we are concerned with the order. I am saying that you are either entitled to use this wording or you could use another wording saying, "You are hereby ordered to get out of Canada and not to come into or to remain in Canada," and that if this order is valid, you can certainly use section 48 because this would be a clear violation of an order issued under the act.

Hon. Mr. Andras: I am a little curious, Mr. Chairman—I know I am here to be questioned but I am searching for answers too—as to what really is the fundamental concern. It seems to me that the fundamental concern, as I am digesting it, is that we are amending a section of an act, in my terms, to clarify it and to clearly indicate and provide a deterrent to prevent acts that we do not want to see take place. I do not sense that there is a fundamental objection to providing a deterrent, but the question is as to whether we already have that deterrent or the power to apply a deterrent or not, and that that should have been tested.

I can only say that if there is a disposition that there should be a deterrent, then it should be clear that there are two methods: there is the method of testing it in the courts and being upheld or turned down, as the case may be; or there is the test of going to the root of the matter, which betrays my bias, I guess, and taking what is obviously, even amongst ourselves here, a wording that is in some doubt and making it clear. It is not denying anybody any rights. At least, I do not think so. If that is the argument, then, of course, I would be very interested in hearing it. So we are really narrowing it down to the question of whether it is wise to amend the law for the sake of clarity.

Senator Flynn: If that is the only thing, then we are in agreement. But we are very curious when we find that apparently you could have used some sections of

the law and that you are asking us to clarify it even before it is tested in the courts. That is the only point.

The Chairman: Senator Croll, just before you I have Senator Laird.

Senator Laird: No, no, I think I said plenty in the house.

The Chairman: Oh, I thought you wanted to say something here.

Senator Croll: That is the trouble! As a matter of fact, you did not say plenty in the house and that is why we are in trouble here.

Senator Laird: Oh, come on now.

Senator Croll: And I will tell you why.

Senator Yuzyk: You said plenty, but not enough.

Senator Croll: As far as I am concerned, there is no problem. You can have this law, if you want it. But I think, Mr. Minister, that it ought to be made clear that when this was brought into the Senate, you were very unfair to Senator Laird. Whoever gave him the information, he could not tell us how many people had been deported or when they had been deported. He brought in figures for 1973 and 1974, but he could not give us the figures for 1972. None of that information was available. I do not know what brief your department gave you, but you certainly could not walk into the House of Commons with that brief. Speaking for myself, I felt very let down, and so I am letting you have it. I just wanted you to know that.

Hon. Mr. Andras: I know it now.

Senator Croll: There is a fundamental problem here. When they send things to the Senate they seem to just throw them in and say, "Read it to the Senate. Second reading. Goodbye!" Well, that is going to change a bit because the message is going to get back from what has happened here in connection with this bill, which could pass without any difficulty at all. But you ought to know that you have to make out a case for us. We were entitled to know what the problem was and why you needed this bill. Senator Laird did not have that information. He asked for it on two occasions, and your department did not provide it. I tried to get the information as well by having research people call, and they would not give it either. That is unfair.

Hon. Mr. Andras: Well, now I have learned that I always have to get the other side of the story too, but I take that as a very serious criticism. I myself was enthusiastic about this bill going to the Senate, not because I was trying to ram it through or because there was any Machiavellian motive in it. The suggestion was made to do it this way and I said, "Yes, by all means." I thought it was a fine idea.

Now, so far as the question of briefing is concerned, as minister I have to take the responsibility for what did or did not happen. My apologies to the Senate and my apologies particularly to you, Senator Laird, if that is the case.

Senator Laird: No, no, I had enough information.

Hon. Mr. Andras: I bow to the argument at this stage, but certainly there was no thought in my mind nor would I condone any evasion of the giving of the information necessary to make your decision on this.

Senator Thompson: Mr. Chairman, I think we should clarify this. The minister has said, as I understand it, that there was no question of any evasion on his part at all. Nevertheless, I follow up on what Senator Croll has said, that the department has shown a lack in providing Senator Laird with information. I do not think he had enough information.

Senator Yuzyk: Two weeks later.

Senator Thompson: I do not think he could get all the information necessary. I think it is deplorable that he could not tell us how many people were deported in 1972 and how many people came back in. This subject is very sensitive to the people of Canada. I am an immigrant; in fact most of us, if you reach back far enough, are immigrants and anything to do with immigration or deportation strikes a chord in the heart of every politician. You, Mr. Minister, are in one of the toughest, most controversial seats that there is in cabinet. I know you are aware of this and, frankly, you have a great humanitarian soul—and here I am, perhaps, speaking partisanly—but I do think that no matter what immigration amendment we have put before us we have to have more facts. I am aware that we do not have them in the Immigration Department; they are on the borders and we are not collecting enough data. When they say that in 1972 they do not know either the numbers of or the reason for deportation, then, in my view, that is absolutely shocking and a dereliction of duty on the part of the department, if it is true.

Hon. Mr. Andras: I think I have to say in defence of the department—and I have to be very careful here—that it is a department that has had extraordinary responsibilities with, I am afraid, over the years rather unclear instructions as to what was expected of it. I think they have also been people who have, frankly, been underpaid in many cases, subject to allegations and accusations of the direst types, only rarely justified, and in any group of a few hundred or a few thousand people you will find individuals who are not of the best, and that can apply with respect to senators, members of Parliament, businessmen or anybody else. It has been my experience over two years that there were morale problems, that they were neglected, and that they have, as I say, extraordinary responsibilities. Many of these customs officers at the border do double duty in the screening process for the Immigration Department, for the reason I was indicating earlier, that there are 72 million border crossings, each one of which, by implication, carries at least some responsibility as to who is entitled and who is not. And, of course, today jets arrive at our airports, sometimes in the middle of the night, carrying hundreds of people, and very serious decisions about individuals have to be made in split seconds. Perhaps there are three minutes in which to make a decision of this nature.

I do not know any group of people with a more onerous responsibility, really, than our officers at the border. In my opinion the calibre of the service, the judgment and sensitivity of our people, is improving rapidly. I would not claim that it reaches anywhere near the perfection

I want to see reached, but I will say that it is changing, and changing quickly.

I am reminded of a remark that my colleague Mr. Jamieson made, which is rather descriptive, that, if you get the reputation for getting up at 6.30 in the morning early in the game, you can sleep in bed until noon; but, unfortunately, if early in the game you had the reputation of sleeping in bed until noon, and then you start getting up at 6.30 in the morning, the adjustment or reaction to that is not nearly so quick.

I am telling you that these people have great responsibility and they are improving, but there are still weaknesses which we are trying to resolve. Some of these weaknesses, I may say, stem from the fact that we politicians have not, either in legislation or in the interpretation of legislation, made quite clear what we expect of our people in carrying out that law. I submit that our people across the country have been saying, "You subject us to criticism in the press and from all sorts of groups of people about either being too permissive, on the one hand, or too heavy, on the other hand, and you leave us to carry out a law which is ambiguous and unclear; and we want your support in clarifying the rules of the game so that we can carry out our duties." Really, in the end, that is what we are trying to do here. I am trying to walk the tight rope between retaining full recognition that we are dealing with individuals—not only my officers but the people about whom they have to make decisions—and, at the same time, if we are going to keep our immigration respectable in the eyes of Canadians, being prepared to make sure that the people I am screening here do not find it easy to abuse what I think is a very fair law.

Senator Thompson: The point is that we are not backing these people up sufficiently. I agree with you thoroughly that it is a very tough job that these fellows have. There is no doubt about that at all. But when your representative in the Senate—and he is one of our most able senators—cannot give us any facts or figures, except for the first few months of 1974, how can you expect us to comply with your request to amend the bill? We want to know what the justification for the amendment is, based on facts and figures for 1972, for example, and yet these figures are not forthcoming from the department. In my opinion, that makes the department look as if it is not keeping up to the job and is not backing up the officers at the border. I would suggest that if you have not any facts or figures about how many deportees there have been, what kinds of deportees there have been or what countries they have come from and so on, then you need much better research facilities.

Hon. Mr. Andras: I can think of lots of instruments that we need, senator.

Senator Macnaughton: Mr. Chairman, is it not the custom to give a brief explanation on second reading of a bill and then refer it to committee, at which time you have officials before you and can obtain all the facts you want? I have a bill coming up next week. I hope the Senate does not crucify me on that!

Senator Molson: Yes. It is only the principle of the bill we are considering in the chamber, Mr. Chairman, in all fairness.

Senator Flynn: You cannot be too restrictive about that, though.

Senator Croll: It is important to make clear that there was no attack upon the Public Service by any of us here. We did not reflect on them. We did not intend to reflect on them. We hold them in high regard. If they are underpaid, it is the minister's fault, not ours.

Hon. Mr. Andras: That is being corrected, senator.

Senator Croll: But the fact is that we did ask certain questions and the point is: Why did we not know how many people had attempted to come in, on second offences, in 1972 and 1973? You gave us the information, or as much of it as you had, for 1974, but why could your officials not say to us, for example, "Over this period of years, this is the number of people who have attempted to come in and with whom we have had to deal. We need a law to deal with it"? If that had been the case, you would have got your law in a minute. But we were never given the figures, not even this figure of 128, until a few days ago.

Senator Molson: The point is, Senator Croll, that we would have received those figures in committee.

Senator Croll: It is a matter of principle; it is not just a matter for the committee.

Senator Flynn: In my opinion, I think the sensitive point is why the other sections of the act were not tried.

Senator Yuzyk: Mr. Chairman, while we are on the question of the admission of deportees and the fact that they may not come into Canada, I wonder if we could have clarified just how far this matter can be carried.

Hon. Mr. Andras: You mean, without the permission of the minister?

Senator Yuzyk: Let me give you an example. Say someone has been deported and, subsequently, a close relative dies in Canada. The deportee wishes to return for the funeral. Sometimes, certainly in the case of those of the Jewish faith, the funeral will take place in one day. The deportee would then not have time to obtain the permission of the minister to re-enter. In such a case would it not be logical that the deportee could go to the Canadian immigration officer and ask him to allow the deportee to attend the funeral? Now, that is just one example.

Hon. Mr. Andras: Yes, that is a legitimate purpose for coming back. I am quite prepared to delegate that authority to make that decision on the spot in these cases.

Senator Yuzyk: That is why I was thinking we cannot be too restrictive in saying that he cannot set foot on Canadian soil. The important point is that he cannot remain in Canada, but there could be a reason why he would be in Canada for one day.

Hon. Mr. Andras: For the reason of compassion, yes, and the justification for that does not seem to me to be too onerous, provided we set up the machinery at the border for a quick decision after a question to make it incumbent upon him to seek that authority to come in. I am prepared to provide for the exception, but I do not want to leave a loophole just for that reason. Many people come here for many stated purposes and then afterwards change their minds.

Senator Yuzyk: Then provision is made on compassionate grounds.

Hon. Mr. Andras: I will ensure that it is.

Senator Croll: Senator, it is quite common to have that sort of case at the border. The officer will simply phone in, and I have seldom seen a refusal on that ground. They do that constantly.

Hon. Mr. Andras: I would ensure it, because I totally agree with you that there would have to be that legitimate exception, but let us not make it an exception which becomes a loophole for all the rest.

Senator Asselin: The decision in this case would have to be taken by the officer at the border because there would be no chance to obtain the minister's permission. Is that the point?

Hon. Mr. Andras: That is what I say, yes. I am prepared to examine methods of delegation, and, in fact, we now do delegate the authority for ministerial permits and other such discretionary judgments in many ways. This one I would certainly want to do as well.

Senator Yuzyk: Do you do that through regulations, Mr. Minister?

Hon. Mr. Andras: Yes, the delegation of ministerial permits and so forth is done through regulations. I believe that has been an accepted method as well.

Senator Thompson: Mr. Minister, one of the questions I have, and I speak merely as a layman, is with respect to clause 1 of the bill, dealing with section 35.1(b):

...unless an appeal against the deportation order is allowed...

My question is that I can see a real estate agent or an unscrupulous lawyer—and there are very few of those, I hope...

Senator Macnaughton: There are not any. They are disbarred immediately.

Senator Thompson: Having had some association with immigration, as Senator Croll has, having represented a riding that was full of immigrants, I saw terrible abuses of people by those who took advantage of them, frankly, in a variety of ways. I could see someone saying, "Look, you are being deported, but you sneak back into Canada and we will have an appeal against the deportation order once you get in. You can meet some girl, get her pregnant and the appeal board will take a long time. But come in." Let me read this point to you: "...unless an appeal against the deportation order is allowed." I cannot for the life of me see why someone who is deported, leaves Canada and sneaks in again can then feel that he will be able to have an appeal after he sneaks back in. I understand there might be mitigating circumstances, but it would seem to me that in this amendment it should be clear that he should make those known before he sneaks back into the country.

Hon. Mr. Andras: The appeal would not be allowed under those circumstances, so he would not be subject to this extension.

Senator Thompson: Then why do you have that?

Hon. Mr. Andras: An appeal to the Immigration Appeal Board stems from the deportation order, in the main, deportation being made against a person. As of Bill C-197, which became law last year, the right of access to the Immigration Appeal Board is now restricted to a landed immigrant, to a person with an immigrant or non-immigrant visa at the point of entry, to a person claiming refugee status, or to a Canadian citizen. That is the access. However, we still have people in this country whose appeals have not been dealt with, and whose appeals were generated before Bill C-197. We have always taken the position, with the exception of those people from what is called contiguous territory, the United States and St. Pierre et Miquelon, that we do not execute the deportation order while that appeal is still unsettled. However, when a person come from the United States or St. Pierre et Miquelon, because they are contiguous we can in fact remove that person from Canada and the appeal still goes forward. If he is under appeal to the board, we think it proper that he has the right to come back into Canada until that appeal is dealt with. Would you wish to add to that, Mr. Black?

Mr. Black: Yes. I think the words "unless an appeal against a deportation is allowed particularly to a person who is coming from the United States or St. Pierre et Miquelon. The normal rule is that, if a person is ordered deported and he stays in Canada while his appeal is being heard, is under adjudication, the deportation order is not execute. However, because the United States and St. Pierre et Miquelon are contiguous, rather than let the people into Canada they are deported immediately to the United States or St. Pierre et Miquelon and stay there while their appeal is being heard in Canada. There is a special provision in the Immigration Appeal Board Act so that the Immigration Appeal Board can authorize them to come in when the appeal is being heard; they can attend the hearing of that appeal. Otherwise they must wait in the United States or St. Pierre et Miquelon the outcome of their appeal.

You might very well have a situation where a person is deported to the United States and appeals. If he comes in while his appeal is pending he would commit an offence, because the intent of section 35 is that he should not come in. Once his appeal has been allowed subsequently, he would be able to come in. That is where those words "unless an appeal against a deportation order is allowed" would really come into play, in those cases.

Senator Thompson: I think Senator Laird explained to us that it was those two places, the United States and St. Pierre et Miquelon. Let me take a hypothetical case. Suppose someone from Greece or Italy—I do not want to pick on one nationality—has been deported because of some criminal offence, or something else; his relatives have a restaurant and say to him, "Come on back in again. We will marry you to your fifth cousin." He has a child by the fifth cousin and he is underground for that period. They then say, "Because of the way this act is drawn we will make an appeal in your case."

Hon. Mr. Andras: Under the new act he would not be entitled to an appeal in the case of a second offence.

Senator Thompson: Because of not having come in under the requirement?

Hon. Mr. Andras: That is right.

Mr. Black: Even if he was entitled to an appeal, even if he was in one of the categories for which a right of appeal exists, he would not have been deported until he had exhausted all his recourses in Canada. Once he had been deported, I do not think he could come back, if the circumstances have changed, and ask for another appeal. If he came back in he would require the consent of the minister. If the minister gave such consent, and it was perhaps decided that he now met the requirements, he could perhaps subsequently be accepted as a landed immigrant, but the consent of the minister would still be required.

Hon. Mr. Andras: The real point is that if he took voluntary departure pending the resolution of his original appeal and then came back into Canada without the minister's consent, or after the appeal had been heard and denied and he had been deported, then under the new law he would no longer have access to appeals.

Senator Yuzyk: Even if he married a Canadian citizen?

Hon. Mr. Andras: That is right, at this stage.

Senator Rowe: He has a right of attendance at the appeal hearing. Is that a right or by grace?

Hon. Mr. Andras: That is a right.

Mr. Black: Section 16 of the Immigration Appeal Board Act.

Senator Croll: Before we close, there are two pieces of information I would like. We were informed that 128 persons were deported for entering Canada without the consent of the minister in the first eight months of 1974. I should like to know, for the record, before we finish with this bill, how many were deported in the same way in 1973 and in 1972.

Hon. Mr. Andras: I do not have that information.

Mr. W. K. Bell, Director, programs and procedures Branch, Department of Manpower and Immigration: We do not retain the returning deportee statistics here in Ottawa. What we have to do to get that figure of 128 is go out into the field and do head counts from files. It would take a little time, but we could get it.

Senator Croll: That was special?

Mr. Bell: It is special, because there has been no point up till now to keep them here at headquarters. There is nothing we can do about it anyway. We know how many were deported. As to how many times it is the same person, it is like the man the minister mentioned earlier who got collared six times in one year. We do not know, and it really was not all that relevant up to this point.

Senator Croll: How big is your problem?

Mr. Bell: As is indicated by the figures the minister read for the first eight months, it is not large in terms of the total. This is not a numbers problem. It is the quality of this particular group that is the problem. The numbers are small. In the first eight months of 1974 the figure is 128, but the total number of people deported is in the thousands, whereas this number is

very small, this particular group that the minister highlighted.

Senator Croll: So those records are not kept?

Mr. Bell: They are not kept here in Ottawa, but we can do a file count.

Senator Croll: There is no reason for that. I am surprised that that is not considered important, in view of this growing problem that you have to face, and which the minister considered very serious.

Hon. Mr. Andras: With respect, I have talked to people across this country; I know it has existed for years. We did a statistical count for 1974 as an illustration of this year. I submit that even if it is only 20, 50 or 75 the evidence is—it may be impressionistic evidence at this stage—that they are the real hard core kind of person. I am not talking about the innocent little fellow who comes back through ignorance. That is why we have the summary rather than indictable offence aspect of this. We are not going to descend upon that sort of man. The immigration law is not wholly like criminal law. There are some hard core criminals who are just laughing at us now. Sure, they know they can get deported again if they get caught, but that is no inhibition to them whatsoever. Their systems are going here; they have to spend a couple of days in Buffalo and they pop right back in. That is the kind of group we have in mind. Even if there are only 50 of them, they really are souring the whole system. We can get that information, senator.

Senator Croll: No, no. It is not necessary to go out into the field.

Mr. Bell: We are now converting our system, and we will have a system that will be able to catch all these things, hopefully, in place by February. Since it was a major conversion we wanted to put it in such a way that we could get it quickly. It takes a little time, but we hope to have it in February.

Senator Desruisseaux: I am not a member of the committee, but I made a remark in connection with the Immigration Act, that surely there would be records kept of the costs of deportations. I believe that question has been answered by your previous answers.

Senator Croll: I understood the question asked in the house by the honourable senator was: Who paid for the deportations and what are the costs?

Senator Desruisseaux: Well, the government must pay for it.

Senator Croll: No, it does not.

Mr. Bell: We do spend money on deportations, and the average for the first six months of this year is approximately \$100 per deportee. However, that figure is terribly misleading, because that is the cost to us, which is mostly the cost of maintaining a deportee in a hotel before returning on the plane, because generally they have return air tickets. Some merely have to get back in their cars and return across the border, in which event it costs virtually nothing.

Senator Desruisseaux: My question was not in relation to the cost itself, but as to whether the department is obliged to keep a record of deportations?

Mr. Bell: Yes, records are kept.

Senator Desruisseaux: Are they available?

Hon. Mr. Andras: We can give you the total number of deportees in any one year, but we just have not at the Ottawa central office segregated by exact category this particular group of returning deportees. We obtained it for 1974, and I regret that we have not carried out a field check to obtain it for every year. However, until our computerized system is working there will be many gaps in our information flow, which we are attempting to correct.

Senator Yuzyk: How do you find out that a deportee has returned to Canada?

Hon. Mr. Andras: In most cases it is usually because he runs afoul of the law in terms of being a criminal.

Senator Yuzyk: I can understand in respect to cases of criminals, but are there other categories which you might not be able to detect?

Hon. Mr. Andras: Yes, I am sure there are returning deportees we have not identified. We want to identify them and we sure as hell want to identify those returning deportees who are here for criminal purposes. That is, frankly, my objective. It is the really hard core, the 10-times or 12-times crowd, who are picked up by virtue of being arrested for their activities unrelated to immigration, such as pimping and other criminal activities of a wide range. I do not mean that the situation is rife with criminal activities amongst immigrants. That is a fallacious statement made in some quarters, which I consider to be an unfair indictment against the immigrant movement. Having said that, however, I must add that there are some who give justification for that type of accusation.

Senator Yuzyk: Further with respect to the deportees an immigration officer has the right to ask any person whether he was deported.

Hon. Mr. Andras: Yes.

Senator Yuzyk: Do the immigration officers make that the practice, or do they only do it when they have suspicion of a person?

Hon. Mr. Andras: Senator, our problem is as I have described it. We have 72 million border crossings per year, and that represents a great number of questions. When we have any indication—there are files kept of criminals, undesirables and so forth—our officials, who in spite of criticism are really quite good at this, do their best to catch it. However, with 72 million crossing in a year, we have to have a deterrent and the follow-up system by inland control. Often this comes to us through the person being caught doing something wrong in other terms.

Senator Asselin: Is that why you have included section 35.1(c) in the bill, to catch the criminal? When you provide "on conviction on indictment", is that the purpose?

Hon. Mr. Andras: Well, we want power in the court, and once this is passed, of course, it goes over to the court and will be an independent judicial decision.

However, we want the power to range from summary conviction to indictable, and that would be based on circumstances and situations, as is the case with all law, I presume.

Senator Asselin: Who would choose the method of procedure as between indictment and summary conviction? Would that be the minister's choice?

Mr. Black: No, this is chosen by the prosecutor, but I believe concern was expressed that if, for example, a prosecutor did not like someone he would proceed by indictment. Even if that did happen, which I doubt very much, when the matter came before the judge, if he found the circumstances were such that the person was not a serious criminal but had perhaps returned to Canada to visit his dying mother and had previously been deported, not because he was actually a criminal but was lacking a visa or passport or something of that nature and there had been prosecution by way of indictment, he could still sentence the man to one day, or an absolute discharge. So I do not think it is solely up to the prosecutor, really, to determine the severity of what will happen to the person. However, as a general rule the purpose of the choice, as it is under many other statutes, is to take account of the circumstances. If the person is a serious criminal who has returned many times, I imagine the prosecutor would want to proceed by way of indictment. If it were, as I say, a compassionate case, or a technical violation of the Immigration Act, he might wish to proceed by way of summary conviction.

Senator Carter: Before putting my one brief question, I wish to express to the minister and to the committee my appreciation of the very thorough consideration I have always received from his staff and officials in respect of cases I have brought to their attention. I wish to go on record as saying that I believe the country is fortunate in having a minister in charge of this portfolio such as Mr. Andras, a man who has the great humanitarian outlook that he has displayed. It is a very sensitive portfolio and requires very special qualities to make a success of it.

My question is in respect of section 35.1(c). Apparently, there is no leeway in the penalty area. The minister has said that the main objective is to keep out undesirables, and that it is the quality of the people who make use of the loopholes, rather than the quantity. Some are much more undesirable than others, but the penalty, as I understand it, is the same for all. If a deportee returns a second time and is convicted on indictment he is sentenced to two years.

Hon. Mr. Andras: My understanding, senator, is that that is not the case. I bow to those who use legal terminology all the time, but my understanding is that this is not an obligatory two years, but a maximum. The phrase "liable... to imprisonment" which is contained in the bill is used in many sections of the Criminal Code, and it means "up to two years".

Senator Carter: But there is no option of a fine provided.

Hon. Mr. Andras: Not on conviction on indictment.

Senator Croll: Mr. Chairman, I move that we report the bill.

The Chairman: Shall I report the bill without amendment?

Hon. Senators: Agreed.

The Chairman: As chairman, I did not want to interject my own opinion during the discussion, but so that the minister will not go away thinking there is any unanimity among lawyers, I want to say, as one lawyer, that it is clear to me that the only people who can be

charged and convicted under section 35, as it now exists, are immigration officers and the minister himself!

Hon. Mr. Andras: And I have enough alligators at me already.

The Chairman: Thank you, Mr. Minister, for appearing before the committee this morning.

The committee adjourned.

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FIRST SESSION—THIRTIETH PARLIAMENT

1974

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 2

THURSDAY, DECEMBER 5, 1974

First Proceedings Respecting:
Canadian Relations with the United States

NOTE: During the past session, four Proceedings were printed respecting this subject.

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Hastings
Bélisle	Lafond
Cameron	Laird
Carter	Macnaughton
Connolly	McElman
(Ottawa West)	McNamara
Croll	Rowe
Deschatelets	Sparrow
	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, December 5, 1974.

(5)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 9.05 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Cameron, Carter, Croll, Deschatelets, Lafond, Laird, Macnaughton, McElman, McNamara, Rowe and Yuzyk. (12)

Present but not of the Committee: The Honourable Senator McGrand.

In Attendance: Mr. Peter C. Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian relations with the United States.

Witness:

Mr. J. Robert Schaetzel, Washington, D.C.,
Former United States Ambassador.

The witness was thanked for his assistance and permitted to retire.

At 11.10 a.m. the Committee proceeded *In Camera* to consider its future program.

The Chairman laid upon the table the following documents:

- a) The transcript of an *in Camera* meeting of the Committee, dated May 8, 1974, with senior officials of the Department of Transport and External Affairs, respecting a Canada-United States Air agreement. (See Appendix "A" to printed proceedings No. 3)
- b) Preliminary statement by Dr. Arthur J. R. Smith of the Conference Board in Canada to the Standing Senate Committee on Foreign Affairs May 1, 1974, at an *in camera* meeting. (See Appendix "B" to printed proceedings No. 3)
- c) Transcript of testimony of Mr. Willis Armstrong of Washington, D.C. to this Committee on November 7, 1974 at an *in camera* meeting. (See Appendix "A" to printed Proceedings No. 2)
- d) Transcript of testimony of Mr. Robert Bryce before this Committee on November 28, 1974 at an *in camera* meeting. (See Appendix "B" to printed Proceedings No. 2)

On motion of the Honourable Senator McElman

Resolved; That portions of the above-mentioned documents be appended to the printed proceedings of this Committee, subject to agreement by the witnesses concerned.

At 11.50 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, December 5, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 9 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, there is a number of Senate committees meeting this morning and one or two of you may wish to leave early in order to join other committees, so we will get on with our witness' testimony as quickly as possible.

Many of you will remember Mr. Schaetzel from the evidence he gave before our committee during our study of Canada's relations with the European Communities prior to going to Brussels a year and a half ago. Of course, you are aware that he was the U.S. Ambassador to the European Economic Community before assuming his present, I understand, retired status—retired, but not inactive. I think Mr. Schaetzel has recently completed a book relative to U.S. policy with the European Economic Community.

Our guest might be interested in my mentioning that since his testimony we have completed our report, under the chairmanship of Senator John Aird, on Canada's relations with the European Communities. The report contained several recommendations, and one of the major ones was that the Community open an office in Canada rather than have the Washington office handle Canadian affairs. After some pushing by our parliamentary conferees there, the Community has agreed to do this. At the first of the year one may hear that a permanent interparliamentary group has been established between the European Parliament and the Canadian Parliament. The first meeting was a couple of weeks ago in Europe, and in the coming year it will be here. We recommended that the Prime Minister visit the Community per se, which he did a few weeks ago.

Another recommendation was that the Europeans include Canadians in their student exchange program, which had included only Americans up to that point. I received a letter from our post in Strasbourg a couple of days ago, and the members of the committee will be interested to hear they have now included, by unanimous vote, Canadian students in that program. That was the fourth recommendation of the Committee. So we have accomplished something in that study.

Today we have you here on an entirely different subject—that is a new study we have initiated of Canada's relations with the United States. Our usual practice, if you are agreeable, would be to ask you to make an opening statement, and then Senator McElman has agreed to lead off the questioning.

Mr. J. Robert Schaetzel, former United States Ambassador: Mr. Chairman, it is a pleasure to be here again.

At the outset I should like to be quite clear on my limited credentials to speak on the question before this committee, namely Canadian-American relations. I have been invited, I understand, because of my role, along with Douglas LePan, in shepherding the creation of the Joint Ministerial Committee on Trade and Economic Affairs in 1953. I should also warn you that I have, by no stretch of the imagination, that mixed blessing, total recall. In any event, I am prepared to rummage about in those vague, and indeed, humorous recollections of that first meeting we had in 1953.

Another possible qualification is my general interest in the difficult subject of international consultation, especially as applied to American-European Community relations. Finally, I have been preoccupied since the early 1940s with the world trade-and-payments system, and confess that I am greatly concerned about the disintegration of this system.

I might add, there seem to me significant common denominators between the problems afflicting American-Common Market relations and those into which this committee is inquiring. For instance, there is the unease that all is not well with respect to the matter of consultation. There is also, on the part of the Europeans, suspicion of American motives and actions, fear of the sheer size and influence of the United States and resentment at the need to depend on the American Defense Establishment for one's own security.

Before getting to the specific question put to me by Peter Dobell, I should like to make a few general observations so that my answers to the inquiry about the Joint Committee can be seen in context. These observations, incidentally, as what I have to say about the Joint Committee mechanism, are no more and no less than the views of a private citizen who remains interested and involved in foreign affairs.

I mentioned the threatened breakdown of the international system, and not just the economic aspects of this system. Mr. Diebold, in earlier testimony before you, made this point in an observation on the disturbing popularity of pragmatism. In my opinion, the kind of pragmatism Washington has shown in recent years is no more than an elegant word to describe the absence of policy and what Alec Cairncross happily described as the use of "ad hocery". Pragmatism leads to anarchy and in such an environment only the most powerful can expect to live well, for the moment at least.

Worry about the state of human affairs, whether in the United States or Europe, and I suspect in Canada as well, leads one soon to the question of leadership and what happened to it. The deficiencies of leadership have certainly contributed to the slow decay of the international order, an order born out of postwar initiatives, and to which Canadians contributed so much. No one seems to have any ideas as to what should be put in its place. The leadership

vacuum can be easily seen by the process of elimination. Western Europe and the European Community are, at best, in a condition of disarray and in no position to do more than react to the initiatives of others. Even when strong, the Japanese were far from the point of putting themselves forward as leaders; now economic and political problems make such a prospect out of the question.

There was a time when the smaller or medium sized countries were ready to play a role. One has only to reflect on the present deportment of Canada to realize how greatly conditions have changed.

Unhappily enough, if there is to be any leadership it must come from the United States. I draw this conclusion objectively and without any national ego whatsoever. Indeed, in my view it would be better for the world and for America if someone else would come forward. The point of this exercise, however, is to underscore why other nations in the Free World must have more than a passing interest in American attitudes and, particularly, the current drift toward what I prefer to call anti-internationalism in the United States. There is nothing unique about the American mood, a composite of concerns with the whole range of internal issues—inflation, unemployment, crime, poverty side by side with affluence, environment—that can be summed up in one word “nationalism.”

Now a word about how Canada fits into this scheme of things. My knowledge of Canadian-American relations is no more complete or sophisticated than that of any other American who is interested in international affairs, but who depends on the American press and some foreign publications, such as the *Economist*. I confess that the impression I get from what I read is that relations between the two countries are, if not bad, certainly far from good. Before coming to Ottawa, I talked to a number of former colleagues who are knowledgeable in these affairs; to my surprise they insisted that in point of fact relations are comparatively good. They argued that the American press had inflated and distorted the various problems and that by taking these analyses seriously I had come to the wrong conclusion.

Yet I think the impression I had was important since we must assume that most Americans, in so far as they are thinking at all about foreign affairs, must have arrived at the same conclusion. This probably applied particularly to the Congress, for in my experience these are men who are ear-learners and who draw conclusions from random impressions. I fear that a nationalistic America, inner-oriented, is an America quick to conclude that, for instance, the recent meat and energy disputes are serious, and these episodes will be used to justify an even greater disengagement from world responsibilities. Every responsible Free World country must be concerned about what is going on in the United States.

I now turn to the question of the U.S.-Canadian Joint Committee. As I said, I was involved in early meetings of this committee in the 1950s. I also recall what Heraclitus said, “You never swim in the same river twice.” The reason is twofold: the river has changed and you have changed. Nonetheless, I would urge that the committee be revived. It should meet at least once a year. To assure that the meetings are carefully prepared, I suggest that there be a joint secretariat, one senior Canadian official and an American official of similar rank.

The committee might have two agenda items for each meeting. The first would be a fixed item: a discussion of the state of the world with emphasis, in view of the nature

of the committee, on economic matters. To avoid its becoming no more than a bull session, the two secretaries should work out between them a detailed breakdown of the subject. The other item would be a major subject of interest to the two countries, although not necessarily a matter of primarily American-Canadian concern. The subjects are fairly obvious: energy, environment, the financial crisis resulting from energy-induced balance-of-payments deficits, food, and so forth. I would rule out any use of the committee as a town meeting at which specific grievances are aired and then, inevitably, rebutted. If specific problems must be raised, then the rules of the committee should be to pass them along automatically to the machinery of government, or to a specific subordinate committee.

I think there is some merit in resurrecting an official level committee, perhaps composed of people of the deputy assistant secretary level. Such a committee might meet more regularly, depending on the desires of each side and the business to be done.

Others are in a better position than I to explain why the Joint Committee has been moribund since 1970. I am told that the last meeting was a disaster. One reason, relevant to my suggestion that the committee be revived, is there was apparently little, if any, preparation for the meeting by either side. Another problem is that the Kissinger diplomatic style is poorly adapted to committees, organizations and the conduct of open international affairs. Whether this latter deficiency can be overcome is by no means self-evident.

The reason I argued the case for using the Joint Committee spring in large part from my assessment of the weaknesses and problems on the American side. I am not competent to judge whether some or all of these factors relate as well to Canada.

First, I think that much of the lightning and thunder one hears about Canadian-American relations comes not from officials but from the politicians. By politicians, I mean both in the Executive Branch and the Congress. My experience is that when the politicians meet face to face from time to time this inhibits their normal tendency toward self-serving political hyperbole. Thus the Joint Committee mechanism should have the merit of reducing this kind of political exuberance.

There is a second, related, advantage. One of the dangers of this specialized world is the tunnel vision of specialized ministers. The risk to general relations and larger interests is high if, say, energy questions are left exclusively in the hands of ministers who have this responsibility. A joint committee is a means of broadening perspectives, involving other ministers who can sense possible damage to their own interests, to say nothing of broad Canadian-American relations, if disputes between experts are allowed to get out of hand.

Third, by putting “the state of the world” first on the agenda, excessive specialization might be reduced as each side collectively considers the more general problems. The need to look at not only Canadian-American relations but, also, world problems “whole” seems to be one of the major responsibilities of our times.

Fourth, regular Joint Committee meetings would force the American Government to think, at least once a year, about Canada on an orderly basis and within a set context. In fact, the in-house briefing in preparation for the meetings, with American cabinet officers brought together for

just this purpose, might well be one of the most important assets of the process. This certainly accords with my recollection of the first of these meetings, when I was concerned with such matters.

A few words in conclusion. As I have read the testimony or, at least, some of it, before this committee, I have been struck by an anachronism. Perhaps we have both been mesmerized by size, by the fact that the United States has ten times the population of Canada, and so forth. The evidence accumulates that bigness has its burdens; size, for example, may make the political process infinitely more difficult. There is also the responsibility for strategic and conventional defence forces, a budget item by no means congenial to all Americans. As Dr. Harry Johnson suggested, a rich Canada is in a good position to deal even-handedly with its large neighbour to the south and, one would hope, with an easy self-confidence.

Out of this atmosphere, I would urge that Canada forego leaving initiatives to the United States. We all need Canadian ideas and a Canadian intellectual input. American petulance and irritation may be reduced if someone else takes over some of the responsibility for searching out answers to the host of overpowering problems confronting the world. Canada is blessed with an outstanding civil service. The world can ill afford to be denied the contribution of this group, so evident in the 1940s and 1950s, but so rarely seen these days.

I want to underscore once more the siege of the international system. While the superpowers and even the European Community can get along in a condition of international anarchy, this is a far less tolerable environment for the medium powers. The latter need the system and the rules. Contrariwise, if pragmatism, nationalism and bilateralism are to dominate the international scene, this is the kind of world that will brutalize the smaller countries. I would hope, should the Joint Committee be revived, that one Canadian objective would be to use this process to press the case for a renaissance of the international system.

Finally, I earnestly trust that one result of this committee's efforts will be to redirect Canadian-American relations and to ensure against the kind of deterioration through careless rhetoric which is the curse of the contemporary scene. In connection with Canada's first parliamentary meeting with the Europeans in Strasbourg, one of your representatives is alleged to have said that the United States and Canada "have lived in a constant state of mutual and healthy irritation." In the current climate in the United States I really don't think one can accept that irritation is healthy. Jerome Frank said some time ago, "The terrible thing about the mutual distrust of enemies is that it is justified. Enemies cannot trust each other because each is forced to act in such a way as to justify the other's misgivings." Canada and American are by no stretch of the imagination enemies. But mutual ignorance, insensitivity, dramatized differences, issues fought out in isolation of larger issues... all this can sour an indispensable relationship and limit the contribution the two countries, together, must make to an unsettled and dangerous world.

Thank you, Mr. Chairman.

The Chairman: Mr. Schaetzel, I would like to thank you on behalf of the committee for what has obviously been a very carefully prepared and thoughtful presentation. There is a great deal of meat in what you have said, and I

would be interested in reading it again in the transcript and absorbing even more of it.

I should have mentioned, honourable senators, this meeting is not *in camera*, as was the one last week. Senator McElman?

Senator McElman: I would like to join you in welcoming Mr. Schaetzel again. He is becoming an old friend. Perhaps it is very appropriate that we should be meeting today to discuss Canada-United States relations. The Prime Minister and President Ford met yesterday in Washington; and today, as I understand it, the Prime Minister is in almost a "hot seat" situation with a representative group of Congressmen. This leads one to the first question which I think is quite natural in the context: What is your view of the value of the one-to-one summit meeting between the Prime Minister of Canada and the President of the United States, and at what intervals would you suggest such meetings should be held?

Mr. Schaetzel: That is a subject to which I have given a lot of thought, not merely in the context of Canadian-American relations, but summit meetings in general. This may reveal my history as a civil servant; I have a very low opinion of summit meetings in general. They are largely a cosmetic political exercise. Partly, as you know from my formal statement, I really am fearful of the conversion of international affairs into personal relations. This is an essentially dangerous way to approach the highly complicated relations amongst millions of people and large institutions.

If one talks of summit meetings as meetings to deal with serious problems and arrive at complex solutions to these problems, then I do not think the technique works. It is misleading and creates entirely the wrong impression. On the other hand, I think there is a value in occasional contacts between political leaders, such as the President of the United States and your Prime Minister. That personal relationship opens up a further channel of communication. It has some effect within each political society. As to how often they meet depends on the personalities of the individuals and business to be done, and so forth. It could be overdone. I wouldn't want to fix a time. If I were to pull something out of the air, I would say about once a year. I would end on the note that this is not a device which I find particularly appealing.

One final point on this, I do think there is a difference between relations among the democracies, with their complex institutions, both political and non-governmental, and with the Communist system in which you have a consolidation of power in one man or with a small group of people. Here there may be real advantages in periodic relations with those individuals. To transfer this relation with, say, Peking or Moscow into relations between Washington and Ottawa, just ignores the difference between democratic and non-democratic systems.

Senator McElman: As I understand, the current meetings have been designed as a "get acquainted" situation for the two persons involved and a general discussion of mutual problems. Do you feel that such meetings at the summit level, aside from any scheduled meetings of once a year or whatever, really have a useful purpose in specific issues when crises develop? Should there be a more or less publicized meeting of the two leaders?

Mr. Schaetzel: A publicized meeting each year between the two leaders?

Senator McElman: When a specific situation develops.

Mr. Schaetzel: I find it difficult to answer that because I could argue it either way. In certain cases a crisis, if it leads to a publicized meeting between the two, could be harmful in dramatizing an issue that might very well be better submerged. On the other hand, it may be something that got out of hand and if each side is well prepared for the meeting and goes about it in such a way as to diffuse it, it could be helpful. One has to be very careful about judging the circumstance and not have an automatic answer.

Senator McElman: Your suggestion of this type of meeting between the heads of the two countries would not be desirable on a continuing basis between Washington-Peking, Washington-Ottawa, and so on. There are many Canadians and, indeed, many Americans who believe that Canada-United States relations are something special within the world context. Is that in fact true today, or are they simply another relationship within the world relationships and not really all that special?

Mr. Schaetzel: You are pulling me into an area where I don't feel I have great competence. I have reflected upon this since I was asked to come here. There is value in concentrating on broader problems and other areas, as I said in my formal statement.

From the American point of view there is, indeed, something different about Canadian-American relations. I do not think it is as necessarily unwholesome as the record I read of your previous proceeding, may indicate, at least as I would construe it from the American side. I put this very much within the context of the serious point that I was making, that is the steady movement of the United States toward an anti-internationalist mood. I am much concerned about this. It is not isolationism in the same sense it was in the pre-World War II era, but it is a disturbing phenomenon. In a country of our size and the way it moves, a tide that flows in this direction can be exceedingly difficult to reverse. Therefore, in trying to answer your question, I would say that insofar as Americans are thinking about international affairs, I do think that they put Canada in a different category, less of a foreign country. "Continentalism" is a term that you people have developed. I am not quite sure I know what it means. I think when Americans contemplate Canadian-American relations, it is not in the sense of Canada being a colony. It just happens to be a neighbour with similar characteristics and who must deal with the same hostile and disorderly world.

I gather you people quite properly deplore the absence of any really continuing sensible reporting on Canadian affairs in the American press. I would only say the failure to report intelligently on affairs elsewhere in the world is just as grievous. I don't think there is any singling out of Canada on that score.

In the Montreal paper today, the meeting between Trudeau and Ford was down at the bottom of the page. It had an automobile wreck at the top, and a number of other things. The meeting just barely made the front page.

Senator McElman: Mr. Chairman, I agree with the witness that there is something special, although there are those who are clearly trying to portray that there is really nothing special, that it is just two countries within the context and that there is no great difference between the relations of our two countries any more than with EEC and Japan, and so on.

Within that context, accepting that there is something special in that there is a mutual feeling of respect and interest in each other, one of the purposes of this committee has to be to try to determine what are the best consultative mechanisms the two countries can use, not only to react to issues or problems as they arise, but to avoid such issues reaching a stage where there are angry words being spoken.

You have spoken, quite fairly, about the joint ministerial committee structure. There are others, and I suspect a growing number, who favour, rather, the one-to-one ministerial program. Could you perhaps elaborate on the advantages and disadvantages of each approach as you see it?

Mr. Schaetzel: I welcome the question, senator. First of all, when I advocated this in highly summarized form, the revival of the joint committee, it is not with the enthusiasm that this is going to solve the problems that you are referring to and discussing; nor was it intended to be an attack on the relations of a one-to-one nature. The reason I did not refer to the latter is that it is inevitable. It is going to happen in the normal course of events. The telephone connections are just too good between Ottawa and Washington. Air transportation is terrible; but you certainly can get in touch easily enough by telephone. These people will meet at other meetings, and by the very nature of things—unless through personality the men just happen to clash and detest the sight of one another—this is something that is going to happen.

When I suggest the Joint Committee, it is really, to a degree, to offset the excesses of the one-to-one connection. I referred to the extent that we are moving into an excessively specialized world. Today, as I see it, you have to spend so much time mastering a given area. I was talking with some colleagues heavily involved in the energy business in the United States, in an intellectual sense. They were saying that the material being generated in the United States on the various aspects of the energy problem is so extensive that you literally could spend 10 hours a day doing nothing but keeping up with the literature. If this is the situation, and I believe it is, in energy or whatever field you wish to turn to, an intelligent and responsible person with a task to perform can lose all sight of other considerations. That seems to lead almost directly to a miscarriage of public policy and it can lead to not only a destruction of public relations between the United States and Canada, but to further disorder of the international system.

As a consequence, the Joint Committee, to me, may be a weak crutch to lean on, but it is a crutch. It could, if used properly, have some value in working against the excessive specialization and the distortions, as well as the problems, that can arise out of that relationship.

Senator McElman: Personalities, of course, are always a part of any discussion of the problem. We have, perhaps, one of those situations with respect to the beef dealings between our countries. Forgetting, if one will, the personality situation, both the one-to-one proposition of ministers and the joint ministerial committee depend very greatly on the official work that is done in advance of any meeting. Yet we are told that there was a session and information relayed back and forth before this battle began openly on beef, and the action taken by Canada, and the reprisal by the U.S. Do you see any other mechanism that might have

been used in a situation of this kind that could have avoided the outbreak of these arguments? We are searching for mechanisms. We have talked about two. Are there any others?

Mr. Schaetzel: Mechanisms are really no more than mechanisms. They will never solve these problems. They may contribute to a solution. There has to be a political will on each side to try to limit the damage which will arise out of the issue, whether it is energy or beef. I am more familiar with similar problems between United States and the European Community. A great deal of the excesses of American attacks on the Community have arisen from a combination of stupidity on the part of American officials, but more importantly in a real desire to inflate these issues. In other words, the inflation of the crisis, the levelling of attacks against the Europeans, served immediate, narrow and rather mean domestic political interests.

The Secretary of Agriculture could attack certain things being done by the Europeans and rack up small points with the relevant committee on the Hill, or with domestic agricultural interest groups. He told them what they wanted to hear. Presumably, he felt that in doing this he was in some way improving his domestic position, in this case at the cost of the foreigners.

Mechanism is not going to solve this problem. It may moderate it. It may make excessive charges a little more difficult. It is a little more difficult to be irresponsible in your statements if you are occasionally meeting the fellow you are injuring than if you have no relationship with him at all. That is the consequence of a whole series of contacts at the official level, the high subcabinet level and the ministerial level: you make it a little more difficult to be irresponsible.

I would not say there is any single technique. We mentioned the one-to-one relationship. I have suggested there might very well be a revival of the sort of high level civil service committee which, I think, really is important because these people are responsible and are interested in working out issues. I was so informed by the comments of former colleagues before I came here. I have referred to ministerial meetings. We have talked about the occasional contacts between the President and the Prime Minister. To add something, I would also urge there be more done in Canadian relations with the Congress. It is an important body and it is going to be a more important body in our scheme of things. Whether this is good or ill, we will see.

The answer to your question, senator, in my view is that really all of these points of contact be developed, as well as the non-governmental contacts which have not been too bad. There has been a lot of excellent work done by responsible research groups in both Canada and the United States.

Senator McElman: What we are getting back to, after considering any and all mechanisms that might be involved, is basically a matter of good human relations. The joint ministerial meetings enable, along with other contacts, ministers to get to know one another as individuals and develop respect and understanding of mutual problems. The relationships become sufficiently close that these problems do not escalate. People can act as people, rather than antagonists.

Mr. Schaetzel: I think that is right.

Senator McElman: Irrespective of mechanisms, you are still just dealing with developing human, personal relations between individuals who carry responsibility.

Mr. Schaetzel: I would like to emphasize two thoughts: first, is that I put great weight on relations among the non-Communist countries in the world on the improvement of the institutional relationship, strengthening the system of international procedures which is really what we were doing in the two decades after the last war; second, in addition to that, there is the personal relationship which is a factor you cannot discount. This is not a world that can be run by computers, by impersonal relations, or faceless bureaucracies.

I am rather interested, as I read over the record, in the fact that the Canadian feeling about Connally was almost the same as my own. The curious thing was, as any of you that have had the dubious pleasure of meeting this man may know, in your initial contact he was the superb politician, an extraordinary man, and you had a warm personal relation. I found a number of Europeans, who had been keelhaunched, went around praising what a great man he was and not noticing their pockets had been picked in the process. Similarly, we had Secretary of Agriculture Hardin, who came over to Brussels, and I would have to say that the personal contacts he had with some of the European commissioners did nothing to improve relations between the United States and Canada, or between Hardin and the people he dealt with. So, personal contact it is not by any means an unmixed blessing.

In general, a man becomes a successful politician largely because he has some capacity for human relations and, therefore, the relation which will develop of an international character tends to build on this fundamental fact. By and large, it is a principle I would live with, but I make the cautionary note that there are exceptions to this rule.

Senator McElman: There are many noises emanating from Canada in semi-official and unofficial circles that Canada must diversify its trade, that it must have much closer ties with the European Community. Some of these noises even indicate that it would be a shifting of trade which, in my view, is very stupid. You don't shift trade; you expand it.

What is the reaction, to your knowledge, to such discussions that on the Canadian scene we are looking at the EEC more than we are looking at the trade markets of the U.S.?

Mr. Schaetzel: I have not noticed any particular disquiet with this development. The efforts that were made were really led by this committee to broaden and deepen relations between Canada and the European Communities. I would draw an analogy here that if one looks at the absolute predominant economic position of the United States at the end of the war and at the statistics of, say, 1970, there was an extraordinary diminution of the superior American position in the world. Some people looked at this, were fearful and said, "Something terrible has happened in the United States." In point of fact, that is precisely what we wanted to see happen. The almost overbearing dominance was not natural. It was unwholesome. Therefore, as the world changed and expanded, there should be a diminution in this position of the U.S.

By the same token, as the world changes and Canada develops at a very rapid rate, as it has, getting extraordinary advantages from the altered position of those people

who possess raw materials, it is the nature of things. As you say, it is not that the position of the United States is reduced so much as Canada adds to its relationship with the rest of the world as it, too, changes and expands.

In summary, I do not see any adverse reaction to this phenomenon of a serious nature in the United States. What I would hope is that Canada would look upon its wealth and its very strong position—its enviable position in this unhappy world—as an opportunity to reconsider its responsibility for the international system. What type of world do you want to live in? Are you just going to take the world as it is and live off of it, or are you going to try to contribute to it? This is one of the major questions that I would hope is before Canada today.

Senator McElman: That was rather indicated at the World Food Conference as the kind of approach we hope to take within the world. Our contributions committed are rather substantial.

Mr. Chairman: I am sure there are others who have questions they want to put.

The Chairman: Senator Laird.

Senator Laird: I would like to follow up on the last point raised by Senator McElman. Going a bit further, you are aware of some rather strident voices of extreme Canadian nationalism sounding off in this country. I should like to get your view as to whether this will interfere with what we hope still is a special relationship between Canada and the United States.

Mr. Schaetzel: I cannot speak at all as to what effect this will have on the Canadian side of the equation. What the trend is, how significant these voices are, that is for you to conclude. I cannot speak to that.

From my uneducated standpoint, I do not think this is a major problem in the United States in terms of what we are discussing today and what you are interested in. Put in the broadest context, I find very discouraging and almost inexplicable the rise of nationalism at a time when it makes so little sense. I am not thinking of nationalism vis-a-vis the United States, but nationalism as such. We have such an extremely interdependent world. Even for the United States, with 4 per cent of GNP trade, a fraction of yours or a fraction of Europe's, with threat that is posed by what is happening in the Middle East, I would have thought there was an idea this time was gone, rather than something that is so much before us today. Yet there it is. This exists.

Canada has an even more complicated problem and I am not quite sure I understand it. You have your provincial and your federal interests, which Harry Johnson, in his testimony before the committee, referred to with his usual provocativeness. Europe is making similar noises, in England, certainly but also the Basques and the country where I lived, between the Waloons and the Flemish. You can see that nationalism is really at war on two fronts. One is the regional, local interests, which may be a response to the need to have governable units small enough to react in an intelligent fashion and therefore to respond to what the citizen wants government to be. The other extreme is to have some kind of international order which maintains peace, a reasonable degree of economic development with a degree of equity in economic development.

These are two extremes. Nationalism would seem to relate to neither of these interests. I don't quite understand

why it is happening. It is happening in my own country. The reason I suggested that there be a permanent first item on the agenda of the ministerial committee is discuss the world with the thought that such a discussion would take people out of the nationalistic syndrome. It is not that I am against discussing Canadian-American relations, but I add another purpose, how does one get United States to think in a larger context, as well? We are cursed in our own way by a growing sense of nationalism.

The Congress that we are going to have and these people who have just been elected are in terms of motivation, by what I know about them, a pretty impressive group, both in the Senate and the House. Nonetheless, the common denominator of both is more of a nationalistic orientation. They dress this orientation in nice clothes. It comes forward as: "Look, we have to get the United States in shape economically, socially, morally, environmentally. We can't really be responsible unless we get our own house in order."

In one sense that could be fine. In another sense it is rather an elegant way of saying. "We are just going to take care of ourselves and to hell with the rest of the world".

As I understand, if I am not twisting your point too much, we both have a problem, which is to avoid the excesses of nationalism. In your case, you can react against the United States, which you are bound to. You cannot avoid it. We can just react internally because we have so many problems and we, in turn, are strong enough that we do not have to worry about the world.

If both these two great democracies, in a world where democracy is a diminishing way of life, do not perform responsibly, we are not only going to damage ourselves and the international system, but may damage a world order that is absolutely indispensable with human freedom.

Senator Laird: The first point I would like to make is that in so far as the exponents of extreme Canadian nationalism are concerned, I think I would be safe in saying that their numbers are extremely limited. Unfortunately, some people who have had attention in the past, have come out with statements which get attention in the American press. I might add, leaving aside the governmental attitude, that certainly these statements scare the living daylights out of individual Americans.

Mr. Schaetzel: May I ask you a question? This is a question for all of you gentlemen. I suppose—the danger here is that the real risk is when these extreme statements become politically popular, the ladder to political success. Do you see the trend in Canada where appeal to Canadian nationalism is seen as the path whereby a politician who wants to succeed can say this as the way to further his career?

Senator Laird: I think it all depends on the region. For example, let us take the province of Ontario, which is pretty well fixed with capital, as opposed to, say, one of the Atlantic provinces where they are badly in need of capital. You will find two different points of view.

Senator Deschatelets: You could also mention Quebec.

Senator Laird: They are anxious to get outside capital and, in particular, U.S. capital, which is probably more readily available, or has been. In Ontario you find, perhaps, in certain areas there is a feeling of "We can get along without the Americans." It is a stupid, asinine point of view, but it exists. It might therefore be politically

popular in certain spots in Ontario and pretty universally unpopular in several other parts of Canada

Could I just pursue this regionalism for one more question? Take the province of Ontario having imposed, by way of special taxation, an additional tax on the purchase of property in Ontario by non-residents, principally Americans. I can tell you that my experience is that you hear people say, in effect, on your side of the line, "Okay, supposing Florida did the same thing with Canadians!" These are evidences of the regional nationalism. Do you think that they do affect intergovernmental relationships between Canada and the United States?

Mr. Schaetzel: Again, as an area, I am not informed, but Mexico for a long period of time, has had severe restrictions on the ability of non-Mexicans, particularly Americans, to buy land in many parts of Mexico, which have been accepted in the course of events.

Norway, for instance, is concerned about Germany buying up every mountain and lake. This sort of change is something every community is concerned about the extent to which the "foreigner" comes in and takes over a birth-right. What would concern me about this problem within the context of your question, is the extent to which this reaction can be distorted and made into a major issue and can have damage which far transcends the individual issue itself. That is why I was stressing American opinion and the mood in the United States, its irascibility and tendency, in ignorance, really, and in an emotional atmosphere to take issue and blow problems out of all proportion.

This is why I think the meat and the energy issues are important, although I do not want to be drawn into a discussion of them because I am not sufficiently informed. All of you know much more. I have tried to enquire a bit into the subject, but I am told by people I respect that on the American side, each of these issues have been inflated to importance far beyond their true significance and there is no reason for the trauma. But in reading the press you have the notion that Canada is deliberately going out of its way to cut America up on these issues.

The danger of that impression has to be seen in the climate of opinion in the United States and the volatility of the American thinking. This can lead to irresponsible actions on the part of United States with respect to international policy, generally. I stress the latter point because I am more concerned about what will happen in terms of a further deterioration in American responsibility towards international affairs than I am in its relations with Canada. I think the Canadian balance is sufficiently made up of self-interest on both sides so that I do not think it will get out of hand.

In the specific case of actions taken in Ontario, I am not quite sure what one might do. You know much more about it than I. This is the responsibility of opinion-makers in and outside government to the extent that they can moderate these excesses, whether American excesses against Canada, or vice versa.

Senator Laird: Thank you.

The Chairman: Senator Rowe.

Senator Rowe: Mr. Chairman, I have two or three points and questions that I wish to make that on the surface, I think, are a little unrelated.

First of all, I have not heard the first part of the presentation, but I have had a chance to skim through it and I

would like to congratulate our guest on the comprehensiveness and frankness which becomes more apparent as you read between the lines. The views, for example, on politicians are interesting to me as one who was a practising politician for about half my life and an official for the other half.

In the statement you say:

First, I think that much of the lightning and thunder one hears about Canadian-American relations comes not from officials but from the politicians. My experience is that when the politicians meet face-to-face from time to time this inhibits their normal tendency toward self-serving political hyperbole. Thus the Joint Committee mechanism should have the merit of reducing this kind of political exuberance.

Reading from that, the alleged deterioration of relations between Canada and the United States, in my view—and I believe this is something our guest says he inferred from some of his discussions with other people—is largely fictional and largely a product of the imagination. As far as Canada is concerned, it has not been brought about, in my view, by the statements or actions of the politicians or officials asking for them, if there has been a deterioration. I would say the idea that there has been a deterioration has come largely through the activities of our various news media, more than anything else.

Without being too specific, some of our periodicals, for example, have consistently played up to the idea that we have to be on our guard all the time; that the United States is there and it is just a shade different, perhaps, from what the attitude of Russia is towards Czechoslovakia or Hungary. I would like to have our guest's comments on that later.

With regard to relationships between the two countries and how to improve them, there seems to be a difference of opinion as to whether this should be encouraged at the official level or the ministerial level. Here is one point, with all due respect, where I would take issue with our guest. He says one of the dangers of our specialized world is the tunnel vision of specialized ministers. Frankly, I am surprised to note that. I suggest that this could apply to relations between Canada and United States. In my experience, for example, when I was my province's Minister of Finance I found that my deputy minister came to think only in terms of dollars and cents, and I would be frequently reminding him that there is a thing called "people." When I was Minister of Highways, the aim of my deputy minister, who happened to be a very competent engineer, and the other officials as well, most of them competent engineers, was to build a highway from A to B and to hell with the farmer who happened to be in between. The problem was to get them to enlarge their vision.

My own feeling is the danger of tunnel vision would be greater with officials than with ministers. By "ministers" I am thinking in terms of the political sense. Ministers at the Canadian level would automatically be practising politicians and they have, of necessity, to see the wider issues involved in particular actions. I would like our guest's comments on that.

The Chairman: I am sure Mr. Schaetzel would be prepared to. Could I impose on the members of the committee to add a note of my own in that same connection? Possibly our guest could deal with it all at one time. My question is, on this subject of tunnel vision, of a minister being con-

cerned with his own particular departmental problem, as opposed to how it fits into the broader range, which was why you suggested we should have the joint ministerial meetings. In our Canadian Cabinet process there is, however, a great deal of discussion at Cabinet committees on a regular on-going basis of all major issues, so that normally a Minister of Energy will need to put his position before the whole Cabinet and it will get a fair ventilation *in camera* before he is allowed to go forward with his plans.

Am I correct that this is not the case in the United States to nearly the same extent, and for that reason a proper understanding of Canadian overall problems from an American point of view, as far as high government officials and Cabinet positions are concerned, would be enhanced by the joint ministerial program because they do not discuss in Cabinet as we do in Canada? I am trying to tie that into your question, Senator Rowe.

Mr. Schaetzel: This is all very helpful. I do not think I have made myself clear. I appreciate entirely what you are saying about the relationship between you, when you were a minister, and your career people. I am aware of the lateral responsibility among ministers. I am grateful to the Chairman for bringing this out because I do want to discuss it. There are peculiar aspects to the American system and anybody having a parliamentary form of government has the greatest difficulty understanding the American system, which many Americans do not understand.

One of the cockpits of utter boredom is a Cabinet meeting in the United States where ministers go around and talk about their own responsibility to totally uninterested colleagues. You will recall many Presidents, including President Kennedy, could not stand to hold these meetings. As a consequence, there is nothing similar to what happens in the parliamentary system where you have collegial responsibility and in which the minister must get the consent of his colleagues in the Cabinet before he can act on any major issue. I am expressing the views of an American; the value of this mechanism is to try to increase a cross-fertilization among ministers to avoid tunnel vision.

I submit that disease does exist. We have today ministers who are more nationally oriented than has been the case in the past, less internationally informed and interested. This is a danger for a country of our size and importance where, for instance, you have a minister going out into the world, uncontrolled by collegial responsibility or any particular instruction and who behaves on the basis of his personal reaction to a special interest or to special interest groups, including, not to be underestimated, congressional groups to whom he may be more responsible than he is to the President of the United States.

Perhaps it would be useful for me to try to recall for a moment that first meeting of the Joint Committee. I think it has some relevance and I will not prolong it. As I say, this was the first Ministerial Committee the United States had put together. I did not go back to any of the files, so these are just recollections after too many years. The idea was thrown out, partly, I think, because Sherman Adams was in the White House and had a great interest in Canadian affairs. The suggestion thus received a stimulus and we had to think about what to do about it. Douglas Le Pan was in the Embassy, and I do not need to tell you that he was certainly one of the most distinguished Canadians that this country has produced. It fell to the two of us to try to figure out what we were going to do with this

committee, without any guidance from anyone. We worked out a kind of scenario. It was almost of poor television show. We had an agenda and we figured out what one minister was going to say to open the discussion and what the other minister would hopefully say in response. Then, after that, we prayed.

The most interesting part of this operation, in my view, and perhaps the most important, was the briefing sessions we had in Washington in preparation for this meeting. Secretary Dulles, whose disinterest in economic affairs has only been exceeded by that of Kissinger, suddenly found himself in the totally unhappy position of presiding for several hours over a meeting to discuss economic relations between Canada and the United States, which was not what he had in mind for himself.

We had such extraordinary people as Humphrey, whom you may recall as Secretary of the Treasury, Benson, and Weeks, who was awake through part of the meeting, but not all of it, as Secretary of Commerce. This unlikely group, that had never before been brought together on a series of inter-related issues, had to go through a certain amount of homework. They had to consider the agenda and discuss the issues. They had to listen to one another. This produced some interesting exchanges. "My God, you can't say that" sort of thing. For a moment there was a rather orderly discussion which rarely occurs at a Cabinet meeting. To a degree the ministerial device is an attempt to bring some kind of order to the American Government, at your expense.

Senator Rowe: Thank you. That was a very interesting view. Purely in passing, may I say I knew George Humphrey very well. I represented all of Labrador. George Humphrey, and this was not generally known, was the man chiefly responsible for the development of Labrador West, the great iron mines. When he was Secretary of Treasury he used to visit Labrador frequently and I spent several weekends with him and got some inside ideas. He was in the Cabinet at that time as Secretary of the Treasury.

There is another point, Mr. Chairman, that I think is even more important, and this has reference to the American system of government as compared with the parliamentary system. The suggestion has been made here, and in previous meetings, that perhaps Canada should be having more direct contact, through members of the House of Commons and the Senate, with Congressmen. As a matter of fact, I suppose there is some indication of that very thing this morning. This morning the Prime Minister is meeting with a group of U.S. senators.

Because of the nature of your system—and this is obvious—there is always present the possibility of, and very often in actuality, a confrontation between the administration and the Congress. The administration is made up largely of non-politicians. This is a point we in Canada sometimes forget. John Connally was, of course, a notable exception to that. But generally it was the Wilson, of General Motors, type. Is there not a danger, if we were to pursue the idea of closer collaboration—and this might include a bit of lobbying with the Senate or the House of Representatives, or Congress, generally, that it would create within the administration, in the mind of the President or particular Secretary involved, the idea that perhaps we were getting palsy-walsy with the Congress in an attempt to undermine the administration? Is that not a very real danger and, therefore, you could have an antago-

nism develop between the administration and Canada on any particular issue?

The Chairman: Senator Rowe, I think it is a very interesting point. Could I just, for our guest's assistance, make this observation relative to it? I believe Senator Rowe is referring to the Prime Minister meeting individual Congressmen. As you know, we do have a permanent Joint Interparliamentary Group with the American Congress, and that, on our side, does not include any Cabinet ministers, just parliamentarians. So you might deal with the usefulness of the two things.

Mr. Schaetzel: First, let me make a general caveat that, as in so many things, it depends a lot on how it is done. Let us assume, for the sake of discussion, it is going to be done with a certain amount of subtlety and good sense and, for instance, a Cabinet minister from Ottawa is not going to go down and join forces with a group engaged in a toe-to-toe fight with the Administration. That is just good sense.

It seems to me absolutely indispensable that this be done. It goes back to our discussion of the difference to our system. The Congress is a co-equal branch of the American Government. As I said before, whether the new self-confidence of the Congress is going to be good or bad, we will have to see. There are many difficulties with the way our Congress operates. One of the things which just drives a person, concerned with international affairs, up to the wall is that the two committees concerned with international affairs, the Senate Foreign Relations Committee and House Foreign Affairs Committee, have basically no substantive responsibility for about 90 per cent in a growingly significant part of international affairs: the whole range of economic issues. Defense matters are also handled by other committees.

Again, I come back to the fact that the Congress is a working body of our government which has responsibility to initiate, pass legislation, and so forth. This means that they are harried men, tied down to specialized fields, whether it is agriculture, energy, or whatnot, and who tend to see issues in domestic terms, without much reference either to the side effects on other domestic concerns and certainly not on the interests of other nations. The result of this, a very unhappy result indeed, is a kind of anachronism in the political system. The exchange on foreign affairs goes on and the two committees that become informed have no real impact on how legislative business is being done while the members who have authority and responsibility are out of touch and therefore tend to operate in ignorance.

Against that background and those trends it is important for other governments, particularly Canada and the European Community, to develop contacts with responsible people on key Congressional committees. I went to a considerable effort when I was Ambassador to get the Ways and Means Committee, which had never been out of the United States before, to come to Brussels, and about 17 members came there for three or four days. It had a lasting benefit. These people, who never had much contact with international affairs although they handle foreign trade and sit on the most important committee, developed contacts that have been maintained. A number of these members now see the people from the Commission when they come to Washington and something has happened which is essentially wholesome. This is the sort of opportunity to which the Canadian Embassy in Washington presumably is alert. It is the responsibility of the embassies to know how the Congress operates, who the influential people are,

who the people are that can be brought into a luncheon. As Jean Monet always said, "Europe was made over lunch." It is advantageous when ministers or influential people from your Parliament go to Washington, or are invited to Washington, to be brought together at small luncheons with some of the key people from the non-foreign affairs committees for the kinds of discussions which I am sure are implicit in your question.

This technique requires imagination. It should not be restricted just to ministers. It ought to include parliamentarians. And in my view it should include influential Canadians not in the government. It is a means of creating understanding, of influencing thinking. This is not lobbying in the sense that you want to get a right-of-way for a road, or something like that. This is a question of trying to stretch people's minds. We were discussing Canadian nationalism. This is something Americans need to understand: why this attitude exists, how deep-seated it is, how seriously it should be taken, what to do about it. The end result of the process is to have a more responsible and, certainly, less irresponsible American Congress, one less apt to take issue and then react emotionally as it draws legislative conclusions.

Senator Rowe: I have another question later. Perhaps I could pass for the moment. I want to collect my thoughts on it.

Senator Deschatelets: At page 4 of your submission you mention the importance of mass media in the relations of both countries, and the facts being inflated and distorted in the American press. I can also say it is the same with the press in the various provinces. Do you not agree there is a lack of communication at the highest level of both governments? You related this to the politicians, and most of us have been elected politicians in the House of Commons. We know the facts can be distorted so they can build in public opinion wrong impressions, and this has an effect on public issues. Do you think there is something that could be done at the highest level of both governments? And do you agree that there was and is a lack there?

Mr. Schaetzel: As I said earlier, senator, we cannot divorce ourselves from the personalities. It is no secret, thanks to the miracles of modern technology, and particularly the tape recorder, that we know a great deal now of what President Nixon was thinking, doing and saying. If anybody had any doubt, they know now about the sentiment that existed between Nixon and Trudeau. That is just one of the things that happen. You can have warm personal relations and you can have different personal relations. There is not an awful lot you can do about that. We have now a very different sort of President and I think the meeting that has just taken place has value because the President is an outgoing political man and, therefore, the phenomenon of that unhappy period of six years is now history.

There are limits as to what one can do in this area. I can only repeat what I have said before, that there is some value, because of the nature of politicians, in these contacts, in terms of tending to moderate the excesses that come from the absence of such contacts.

You refer to the media, and I agree the media is one of the most serious problems we have. They obviously live on disaster. I am here speaking about the American press. I cannot speak of the Canadian press. One of the contributing factors to this anti-internationalism in America today, and it is kind of a reciprocal engine, derives partly from

the preoccupation of the United States citizen with internal affairs, partly from the response of the media to what it thinks the public wants. The result is a steady diminishment of both the quantity and quality of reporting of international affairs. You see this in terms of the falling off of foreign correspondents, the limited amount of time available on television. They cover foreign news only if there is a disaster; someone blowing up a building. You had very good coverage in the United States when you had a lot of unrest in Quebec.

It is the question of what one does about this. There is no easy answer; if there is any answer at all. In the United States and in Canada, both in the government and outside of the government, a great deal needs to be done to try to increase the sensitivity of the media and the quality of reporting. There are things one can do and there are things being done. There are such activities as the Neiman Fellowship Program, governmentally supported tours of editors. The latter is really more important than tours of journalists. The editors make the decision as to what space is available and assignments of reporters. A special effort has to be made to reduce the pandering to man's worst instinct, the assumption that his interest is only aroused if there is a crisis brewing. That is the only thing the reporter will write about if that is the only thing that is going to get in the newspaper.

The thrust of the question is correct, that the media inflates problems between the United States and Canada in a most harmful fashion particularly as far as American attitudes are concerned.

Senator Cameron: Mr. Chairman, we have had a lot of discussion recently about the relationship between the United States and Canada over the energy problem. I come from the West, where the curtailment of energy supplies to the United States is causing a good deal of concern. Have you any suggestion as to the most effective manner in which a new approach can be made on this matter?

We are faced with a situation contrary to what has been a long-term expectation, that we had energy resources to burn. Now we are told that probably within 10 years the known fossil fields will be exhausted. I am wondering if there is any possibility of a joint committee being established to give special attention to where we are going for the long term in this particular field. Maybe something has been done. I have no doubt it has, but this isn't general knowledge at the present time, and I think it would be useful if more information could be made public of what is being done between our two countries about the energy outlook in the future.

Mr. Schaetzel: Senator, I would like to plead both ignorance and irresponsibility in trying to answer that, so don't take very seriously what I say. First of all, such a mechanism makes sense to me. It might not make sense on examination, but my initial reaction is "yes", and it is not merely because there is an enormous energy problem confronting the world, but because of the intricate relationships between eastern and western Canada and between Canada and the United States in this area. As I have read the papers, there were some 17 senators who petitioned President Ford in connection with Prime Minister Trudeau's visit, and this is an indication of the dangers in this area.

Just at the level of relations between the two countries, this would be desirable. Beyond that the valuable would be to join Canada and the United States, at least intellectual-

ly and officially, in looking upon this as a problem which confronts the entire Western world, and there are things which these two countries with so many similar interests can do together. The pursuit of a common interest of this nature can do much to diffuse the friction that arises out of specific issues such as those raised by proposed Canadian action.

Just a footnote. I am sure that one of the problems that has arisen, and this is pure surmise, is that the United States still really does not have an energy policy. This is an extraordinary, despite a year of extreme difficulties. This failure cannot just be laid at the feet of the Congress. It is an Executive branch responsibility even more than that of the Congress. All of the spinning around with respect to rationing on tax or gasoline is merely indicative of this unhappy situation.

United States talks a great deal of international consultation. I found, in my experience, that we are very keen on consultation once we have made upon our mind exactly what we wanted to do. The idea of consulting when we are not sure what we want to do is something which does not commend itself to most domestic agencies. This is that sort of thing that we ought to be doing now. The world crisis requires this, particularly among like-minded countries with similar interests. Energy is so important and explosive that I think this is an idea well worth exploring.

Senator Cameron: I have a feeling it would be very useful for us to set up, at least, a meeting between American Congressmen and our people on this very topic. There is the related matter, with the development of the Alaskan oil, for example. There is going to be tremendous traffic down the west coast carrying that oil to refineries, and there is a good deal of concern about the possibility of an accident, pollution, and so on. Whether or not this is exaggerated, we do not know. It seems to me that there is a field here that should be explored, and the most authoritative information we have between us should be made available to the public, and it is not being done in any organized way.

The Chairman: Following on that same point, Senator McElman raised some discussion this morning about the development of super nationalism in Canada. I think Senator Rowe suggested much of this has been generated by the media. I would have to comment agreeing with that. As to the media, plus a few very vocal political figures or former political figures in the country who receive an abnormal amount of attention by the press because of their attitudes. I am convinced that they represent mostly themselves. You enquired, "Is this a handy political ladder in Canada? I do not know that many of them are using it as a political ladder, really. They are not seeking public office. They are protesting in the same breath that this is not anti-Americanism; it is pro-Canadianism. To me it sounds very close to anti-Americanism.

It brings me to a remark of yours and that is the term "continentalism." You were not quite sure what it meant, and you thought that we invented it in Canada. I think that may well be true. I wonder if you might just expand on that a little because, to me, "continentalism" is a good term; it is nothing more than possibly a subdivision of internationalism. I have always felt myself an internationalist, as far as the world is concerned, as a Canadian, and I feel the same way within the context of North America. I do not think that continentalism has to mean we simply share all of our resources equally with ten times as many

people across the border; but that is the way the word has been twisted to mean up here.

I wonder if you could expand on what you visualize the American attitude to be, in so far as government and public are concerned, so far as our resources are concerned, and what you might understand from our use of the word "continentalism."

Mr. Schaetzel: Once again I am drawn into an area where I really don't have much in the way of credentials. I have read two statements of previous testimony, Diebold's and Johnson's, with great interest. Out of that and from your question, let me just make a few random remarks. Continentalism, in the sense that the United States and Canada are together in North America and have similar institutions and interests, is one of those facts of life and there is not much any of us can do about it. We are a continent. There is a tendency because, of this, for the rest of the world to think in North American terms and to link Canada, to its irritation or embarrassment, whatever it may be, with the United States.

The second point is, and this is too complex a subject and we do not have time to go into it, but to state briefly, we are moving into a world where there will be ever more intimate relationship among the three major power centres—the Community, United States and Japan. The international organizations are either too large and irresponsible, as the General Assembly has demonstrated magnificently in its recent behaviour in New York, or have been undercut to the extent that governments pay them no attention. If we are going to have any international system, we must have some manageable and responsible group trying to do something.

In all arrangements there are benefits and costs. One of the costs the trilateral power bloc is what happens to the medium powers, Canada, Australia, Sweden, Switzerland, and so forth. As you point out in your own observations, an acute problem is created for a country like Canada. One response would be to become more nationalistic and isolationistic, to hell with the rest of the world. I think this course would be a disaster.

As a consequence, I suggest an added dimension to continentalism, based on an intimate association between the United States and Canada, but emphasizing the sharing of responsibilities and common interests with less attention to Canadians against the United States or vice versa. This approach could submerge nationalism by way of the achievements Canada would share in through its association with the United States in a given endeavour. I want to underscore something I said, and this is not just to compliment Canada. I am in a position where I do not have to compliment anybody any longer. There is an enormous contribution Canada can make to the world in which we live. I remember so well the role of Dana Wilgress, Doug Le Pan, Ed Ritchie, and so many of the other Canadians who have done so much for this world, including especially Mr. Pearson.

That contribution becomes more possible given the economic strength of Canada, and the fact that you are in such an enviable resource position. How do you make use of this strength? The European Community offers some guidance. The anti-Common Market people in Britain insist that the United Kingdom must leave the Community to preserve its sovereignty and be independent in the world. The point made by the Belgians, the Dutch, and others, is that the only way they can have any influence in

the world is to be part of a larger entity. I would say that the analogy holds for Canada. It is in your self-interest to make yourself felt in this triangular world association with the United States, and not as a subordinate member. I would insist that as a country with independent ideas and suggestions you try to move the United States, and as a part of this trilateral enterprise to contribute to a leadership we have not been providing.

By no stretch of the imagination is this trilateral relationship calculated only to serve the interests of the three entities, North America, Europe and Japan. Some earlier testimony before the committee indicated that this relationship is indispensable to deal with world problems. What I fear so much is that the international system will fall apart and isolation will take a further grip on the United States. If so you are going to see a continual withdrawal of the United States from international responsibility. There is evidence of this now and because of our power and economic importance, if we continue down this road, the world is going to suffer. Everyone has an obligation to consider this problem and see how we fight it.

The Chairman: Would I be interpreting your remarks too strongly in suggesting that Canada would have a greater voice in the world by co-operating and joining with the United States because of our geographic location on this continent, so as to contribute as a partner in one of these three power blocs, than simply going at it alone? I should not say "power blocks"—areas of influence.

Mr. Schaetzel: I wish to be careful in answering that. This is not a black and white situation. I am not assuming that if one elects this policy that henceforth Canada would only speak within the framework of some trilateral relationship.

The Chairman: I was not going quite that far.

Mr. Schaetzel: I just want to be clear that this is not the way I was thinking either. There will be many issues, obviously, on which Canada will wish to speak as Canada, whether it is vis-à-vis the Community, or whatever it may be.

I am suggesting that a projection. It is obviously no more than a projection because a true trilateral arrangement is a long way from coming into being because of the chaos in the Community and the situation in Japan to say nothing of the United States. The question remains: How do you begin to put this world together? Within that tentative framework I would at least want to have explored the possibility of Canada being able to speak with more authority and more persuasiveness by this association, both as Canada, but also by influencing the United States.

Again I want to go back to Jean Monnet, who I think was the greatest genius of the last hundred years. Part of Monnet's genius has been the fact that he has been much more interested in achievement than having his name associated with success. This was partly because he had no gift for public speaking and, therefore, he could never go into politics. Otherwise, he might have very well aspired to be a politician. His deficiency became his asset. His genius has been not only in the realm of ideas but that he gave ideas to others who then got the political benefit of the proposal; while Monnet got the benefit of having his ideas translated into action.

This is fairly subtle, but important. Actually to see one's ideas accepted is probably a great deal more important, not only in the eyes of God but, also, in the eyes of man, than

necessarily having one's own name or country directly identified with the measure. If there should be a coincidence of Canadian self-interest in the kind of world that Canada wants, with the ability to persuade the United States to act certain proposals, this would be achievement indeed.

Senator McElman: Mr. Pearson, on occasion, gave the example of just that. On continentalism, unfortunately, the philosophy of the politicians in the respective countries seems to be guided too often by the need for dollars and jobs, and the moral, philosophical approach is quite secondary. On energy, let us talk particularly of oil and natural gas. We have had examples in our relations with the United States that bear this out. Not too long ago we felt that in our Western provinces, particularly Alberta, of course, we had oil and natural gas coming out of our ears forever. Our greatest effort was to get the United States to accept our oil and natural gas at a price that would give us a reasonable return, so that we could do things in social and other terms in Canada with those dollars.

The same applied to water on the west coast. British Columbia, with the assistance of the Government of Canada, negotiated agreements to sell water to the United States. In a very short period of time, we had the situation exactly reversed. What appeared to be a continental attitude of sharing suddenly became a very nationalistic approach, that we did not have all of those great reservoirs of either the energy source or the water.

What you suggested a few moments ago is that we start looking on this continent, and throughout the world, a bit more to the moral responsibilities we have as world citizens, in addition to the actual necessities put upon politicians to consider jobs and dollars. In other words, the continentalism we have experienced of the immediate past and the present has been, not on a philosophical basis but more on the grounds of expediency to meet the reactions of the electorate at large.

Mr. Schaetzel: As you know, from the thrust of my remarks, I feel keenly about this matter. It seems to be one of the great dangers confronting all of us: localism, selfishness, rationalization for something one wants to do and then put in some context to give it pseudo morality. There will always be a degree of local interest. This is the dominant pressure. You have to try and offset this.

As I look at the United States I am fearful as to what is happening in terms of, for instance, the decline in our willingness to make assistance available to developing countries. As you know, we have dropped from the top to about number 18 on McNamara's scale, of contribution as a percentage of Gross National Product. We have seen the problem at the Food Conference in Rome.

If you talk to individual Americans, they will insist they are just as moral and just as generous as they have ever been and will attempt to explain this in eloquent terms. But that is not the fact.

As a consequence, when you are talking of the problem in Canada, which I really cannot speak to with any authority at all, but from what you say and what I have read, this neo-isolationism or nationalism is something which is happening in all of the advanced countries. Meanwhile the disparity grows between the poor and wealthy. This is not merely a moral issue. This is not the kind of world we, or our children, or grandchildren, want to live in, where a growing disparity will create an exceedingly unwholesome relationship.

The problem will be intensified by the Western World's stagflation. This economic crisis provides a further rationalization for selfish behaviour and to hell with the consequences.

I don't want to be drawn too far into discussion of Canadian-American problems because I am not well informed. But I do think we have a common interest in looking at the larger issue and seeing how we can deal with specific problems in such a way as to arrest the trend toward excessive nationalism, selfishness.

Senator Rowe: Here is a point that has to be made, and this may be a personal feeling, but I think it is shared by the great majority of Canadians. It is that in all of our consideration of this overall general problem of relations between Canada and the United States one basic fact exists, and that is the tremendous reservoir of goodwill that exists in both countries vis-à-vis the other.

I may be a little biased on this, Mr. Chairman. I come from a part of Canada where, until 25 years ago, economic relations were much stronger with the United States than with what was then the Canadian nation, and where the social relations to this moment are greater with the United States than with the rest of Canada. Putting it simply, the average family in my province has more blood relatives in the United States than he has in the rest of Canada. What I say about my province is true generally, I think, across Canada, that that general reservoir of goodwill exists.

Let me illustrate what I mean by making reference to the tragedies that your country has experienced in the last couple of years—Watergate and all of the implications of it. In Canada there has been more of a feeling of sorrow than anything else in respect to that. A little bit of amazement, perhaps, that in many respects the greatest country in the world, with 220 million people, could not have produced something different among the administration in the last few years. Apart from that there has been a general feeling of sorrow. In that context, connected to our general discussion, the United States has suffered in world opinion. The moral leadership that even Eisenhower and Dulles could exert has become almost a vacuum in recent years. That is bound to be reflected in different ways.

As against that, I do not think we should forget the fundamental fact that, while there was a weakness in the political system,—that out of that great nation of 220 million they elected a man who was so mediocre in many ways and quite obviously, in recent years, has been suffering from paranoia—the political structure of the United States has remained virtually intact. It is rather interesting, when people talk of politicians, with one notable exception, there was not a single one in the United States mixed up in that whole Watergate mess.

The Chairman: Only the amateurs.

Senator Rowe: The fact is that Erlichman, Haldeman, Mitchell and all of the gang were career lawyers. I have nothing against lawyers. I have several in my own family. But that is what they were. They were not politicians. What is unfortunate is that they were able to get at the heart of power.

Having said all of that, we do have the feeling in Canada—and I am sure it is shared by other countries—that basically the United States is sound. It has been reaffirmed over and over that basically the political structure in the United States is a sound one, that what has

happened in the last couple of years is a temporary phenomenon, and that, hopefully, its effects will disappear.

Mr. Schaetzel: I am very grateful for what you say. Certainly, on the American side I would affirm this attitude on the part of Americans towards Canada.

As for the internal situation in the United States, I thoroughly agree. I get a similar assessment from many of Europeans with whom I have worked and in many cases with whom I am even closer than many Americans. We paid an enormous price for Vietnam and Watergate. It has been said by some of my European friends that the United States, that had been carrying a kind of moral banner and leading in terms of social responsibility, these two phenomena pretty much destroyed this image.

For Toynbee this could be looked upon, perhaps, as just one of those footnotes of history. This leads me back to the vacuum of international leadership. That is why I would welcome anybody prepared to come forward, whether it be international institutions or Europeans or Canadians.

What I am worried about is the confluence of a vacuum of leadership, the damage done by Vietnam and by Watergate, anti-internationalism in the United States and preoccupation with internal issues, and the impact of this on the international scene. We are in perhaps worse shape than at any other time in post-war history. Whether the United States is going to recover and be able to assume some of these essential responsibilities, I do not know. I want to make very explicit my disagreement with Kissinger, which began before he became Secretary of State. I do not think he has any particular interest in the international system as such. He has no interest whatsoever in economics. His notion of foreign affairs is alien to what I was associated with for the 30 years with what you in Canada and we in the United States, and others, were trying to do. I am deeply concerned about the interaction of contemporary trends. One sees the breakdown of the system, the things that need to be done, how we get going again. I see nothing at the present moment which encourages me at all. That is why I hope that one of the results of your examination will be to think about Canadian-American relations in the largest context. You do have a responsibility to think about the improvement of Canadian-American relations, but also the improvement of those relations in the context of what we both can do together.

Senator Cameron: Vietnam was a disaster for the United States and the world. There is a revulsion against it which I think will have long-term good effects.

Mr. Schaetzel: I agree.

Senator Cameron: The Watergate question seems to be a catharsis in the body politic. From that disaster is coming a new appreciation of the need for honesty and integrity in public affairs. I think you can see this when you examine the reaction of American Congressmen to Watergate, particularly, and to Vietnam. There is a feeling that this kind of thing must not happen again. That is a feeling that is shared throughout this country and has made us look at our own system. We cannot afford to cast stones at the Americans. We had better look at what is happening at home. Out of it all is coming a new appreciation of the importance of higher standards of public affairs.

Senator McElman: I was hoping this sort of discussion might not develop, but since it has, in addition to the sympathy and sadness referred to in this unfortunate de-

velopment, I surely believe that one of the predominant Canadian attitudes is admiration for the American system which, indeed, proved itself to be quite capable of meeting the situation and overcoming it; and it is now coming out much better for it.

The Chairman: It is very intact when it is all over.

Senator McElman: It is just as simple as that. There is no superior feeling amongst Canadians. We know we have our own problems. Perhaps they do not get as much publicity in world terms; but many Canadians admire very greatly what has happened in consequence of this unfortunate incident.

Mr. Schaetzel: I share this entirely. While I was in Europe, up to the beginning of 1973, and I have been back frequently, the transition of European thought has been interesting. At first they just didn't understand what was going on and how we could ravage a President and administration. You remember the excuses rendered by the *London Times*, which persisted in defending President Nixon and expressed dismay at the damage to our society and the risk involved. European reactions recently have been similar to those expressed here. I feel keenly that the American system comes out of this crisis stronger, rather than weaker. We are going to have more integrity not only in public life, but in private life as well. If you examine the various political contests in November, whether Republican or Democrat, these were the tests applied.

The pity is that we do not have time to digest this agony and gain the benefits from it and find a new purpose. We don't have the time. The problems of 1975 will be more difficult than those of 1974. Can we regroup rapidly enough to cope with these issues? I don't know.

The Chairman: Before drawing to a close, I wonder if I might be permitted to take our guest back to something he touched on in the early part of his testimony, and that is the seriousness of the world economic situation. I think you related it to a possible result of the United States withdrawing. I jotted down the words "economic withdrawal."

Certainly, regarding the world's economic state—if you take the \$60 billion worth of money going to the Arabs for oil from the industrialized world, the \$10 billion of that going to the Third World for essential oil they must have to irrigate their land and run their pumps, and then add to it the food prices and shortages in the Third World, which will result in many of those Third World countries being required to spend any dollars they have left on food, because you must buy food, if you are starving, before you buy materials to build a home—my concern is that there will be literally no money left in the international structure to maintain any other form of trade. This would have devastating effects, first off, on Japan, which is a workshop with no raw materials and, secondly, to a lesser extent on Europe, and to an even lesser extent on North America. So, keeping down the barriers in the development of internationalism is more important today than probably at any other time of man's history. I am tying this to the question of continentalism. Using the term in its best sense, not in the sense of Canadian nationalism, I am astonished, for instance, that to help the American economy get healthy the American administration has not got a crash program—getting two pipelines across Alaska instead of one, getting itself into a position where it will not have a volume of \$15 billion to \$20 billion a year going out on one commodity.

Look at the Canadian situation of thinking we had all the energy in the world, and then finding we have only seven or eight years supply left. Instead of playing dog in the manger, if earlier the United States had been talking to us and more recently if we would have been willing to talk to the United States instead of saying, "Oh no, you can't talk to us because you are going to steal our oil!"—if we had been co-operative with the United States, we could have, indeed, a continental energy program which would have brought us to the point where we were not handing out \$15 billion or \$20 billion a year, and where our economy was healthier, with the world benefiting from that.

I am sorry; that is a speech and not a question. I wonder if in that area you could give us a view of your thoughts.

Mr. Schaetzel: You certainly have touched on the kinds of things that so deeply concern me, which is why I said what I did about 1975. I am dismayed by the absence of ideas, the lack of momentum, the wringing of hands rather than programs. It is always dangerous to draw analogies. One of the striking things about the early 1930s and Roosevelt era is that he came into a crisis and took actions, many of which were stupid, or turned out to be so, but, nevertheless, people got a notion that somebody was doing something. We are in a similar situation. In the United States, and in Europe, much of the public reaction is that the government is just not in control, but drifting along and pandering to the worst instincts.

I do agree entirely with the dangers that lie in the energy field, in food, and particularly the financial consequences of these shortages. The problems call for more imaginative suggestions than have yet come forward. Kissinger's Chicago speech, where he talked about \$25 million to cope with the balance-of-payments deficits in 1975, was a step in this direction. But I am worried whether this is a veneer and whether enough effort has gone into building momentum with the Congress. You cannot have a viable international program without an energy program in the United States. It is all part of the same piece of cloth.

You have also touched on the high risk we run. I do think we will run an enormous risk next year. We had luck in 1974 for countries did not use "bigger thy neighbour" policies either in pushing exports or excluding imports. We may run out of time. A country, desperate before political forces of a population unprepared to accept restraint, may be driven to take actions disastrous on the international stance. We can see such pressures now. The labour movement in the United States which, for reasons I don't entirely understand, has moved from internationalist policies to economic isolationism. There are protectionist pressures bearing on the Congress at this critical moment with the Trade Bill before the Senate. All this is indicative of something just below the surface in the United States. The consequences of a retrograde movement should be evident to everyone.

You spoke of oil as an illustration. In this and other areas it is certainly worth experimenting with specialized committees between the United States and Canada. Perhaps we can influence one another in ways which will be helpful in relations between the two and in dealing with the kinds of international problems your question suggests.

It is an important thing to try to influence people in the United States who are going to be more harried in 1975 and more inclined to behave nationalistically than internationally. I am talking now of Cabinet officers. In my view the

ministers we have today are much more nationalistic than has been the case in the past. This is both due to ignorance and being pressed by events. Left alone this can lead to courses of action which could worsen rather than contribute the solution to the problems you outline.

Senator Cameron: It is like that lovely phrase that came out in the Nixon tapes "Bring the wagons round."

Senator McElman: Canada is not the only major trading partner of the United States. Obviously, the United States has problems of a trading nature with other areas such as the EEC and Japan. Do you have any other ministerial joint committee, beyond the one you have with Canada and the proposition that there be one with EEC? Is there one with Japan?

Mr. Schaetzel: There is indeed. I believe there is one with Mexico. Whether there are others, I do not know.

The committee with Japan has not been, obviously, the greatest living testimony to the advantage of this mechanism. It was meeting fairly regularly while relations continued to deteriorate at an impressive rate. I suppose all this proves is that these techniques are not foolproof. You can still have problems even if the committee is active and working.

I would nonetheless argue that even so far as Japan is concerned there was an advantage in having the periodic meetings. To a degree a larger dimension was established and perhaps eased somewhat the crisis created over textiles. Both Kennedy and Nixon decided, for presumably sufficient domestic political reasons, that they were going to placate an active lobby, no matter what. There were directives to carry out this mission, certainly in the Nixon administration, on a damn-the-torpedo basis. I am not sure anything could have been done to cope in any effective way with that issue. The other problem was nature of Nixon-Kissinger diplomacy, with surprise the important thing. We paid a lamentable and totally unnecessary price through our failure to inform the Japanese about the opening to China. No committee can deal with that kind of problem.

I remember one other aspect of the Japanese committee, and to some extent it applies to the Canadian Committee as well. With people so busy will ministers' really take the time? This does not seem to me to be a very persuasive argument. We are talking of one meeting a year which involves one day or a day and a half, and certain advance preparation.

If for other reasons the committee mechanism is felt worth trying, and I would want to experiment with this device without any commitment on either side. In other words, I advance the idea with much more certainly than I feel just in the interest of time. I would say revise the committee with the new Ford administration, try it a couple of times, once in Canada, once in the United States, and then review the bidding. See if it serves a useful purpose, if not drop it and try something different.

It is a period in which experimentation commends itself. None of us feel very comfortable about what has been happening and therefore we should see what might be done to improve things.

The Chairman: Are there any further questions?

If there are no further questions, on behalf of the members of the committee, thank you very much not only for your trouble and time in coming here, but for the obvious

care, thought and succinctness you put into your opening presentation, which will be invaluable to us when we return to this area of deliberation. I also thank you for your frankness and thoughtfulness in your remarks and response to our questions.

The committee adjourned.

APPENDIX "A"

EVIDENCE

NOTE: In accordance with a Resolution of the Committee dated December 5, 1974, these proceedings are printed with the agreement of the witnesses concerned

Ottawa, Thursday, November 7, 1974

The Standing Senate Committee On Foreign Affairs met *In Camera* at 9 a.m. this day to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, perhaps we could get under way because, as you know, we have been put under a time stricture this morning, in that the Immigration Act has been referred to this committee, and we are going to try to deal with it at 11 o'clock, when the minister will be appearing before the committee. I would therefore like to proceed with Mr. Armstrong's testimony as quickly as possible.

Before introducing Mr. Armstrong, may I mention first that this meeting is *in camera*. Secondly, may I give you notice of the fact that a matter we were discussing a week or two ago has developed—I think very well for our study of Canada-U.S. relations—and that is that the group of Heads of Missions who are being assembled in Ottawa the week after next, on November 20, happen to be from the United States, which is ideal for our study. The Canadian consuls in the United States, all of whom will be in Ottawa, have accepted our invitation to a reception from 6 o'clock to 7.30 on Wednesday, November 20. I think that will be an ideal opportunity for us to chat informally with a number of these gentlemen on problems they encounter in operating their consulates throughout the United States. Particulars have not been set up yet as to where the reception will be, but that information will be forthcoming.

Honourable senators, some of you, I know, remember Mr. Armstrong from his previous attendance before this committee in 1969, when you were studying Canada-Caribbean relations. He has had a distinguished career in the United States diplomatic service, starting I think in Moscow for some time at the beginning of the war, then London, Ottawa, Washington and other posts. He has most recently served as Assistant Secretary of State for Economic Affairs during the period of what might be called the confrontation over the Nixon protectionist measures, in August, 1971. He is now retired from the State Department and is lecturing and serving as a private consultant. I have no doubt that members of the committee will have some very probing questions on which Mr. Armstrong will be able to throw some light for our study, which at this stage at least is concerned with the governmental and quasi-governmental interlinks between Canada and the United States.

Mr. Armstrong, would you now like to make an opening statement?

Mr. Willis Armstrong: Mr. Chairman, honourable senators, I do not have a prepared statement. It is always a pleasure for me to come to Ottawa. As I was leaving my

house yesterday my 14-year-old boy said, "Don't forget to tell the senators you have a Canadian son!" He was born in Ottawa and is very proud of the fact.

The subject of Canadian-American official relations has, I think, always to take account of the fact that we are neighbouring countries. Neighbouring countries have, in addition to the normal intergovernmental relations of countries that are not neighbouring, a special set of their own, which in many respects amount to housekeeping, because they share a border and do business across that border in a very extensive and intensive fashion. Therefore, there is a special quality about Canada-U.S. relations. There is a special quality about U.S.-Mexican relations. There are special institutions that exist because we are nextdoor neighbours. I remember a former Norwegian ambassador to Ottawa, whom I saw some time later in Stockholm, when he was then the Norwegian ambassador to Sweden, who said, "Being assigned to Sweden I now understand, I think, the quality of the problems with which you had to deal in the American Embassy in Ottawa, which I never did before." This simply reflects the fact that such close neighbour relations are more complicated.

I gather, Mr. Chairman, you wanted to talk a bit about the intergovernmental machinery for consultation and the problem of policy coordination on both sides. I think there is plenty of intergovernmental machinery for consultation between Canada and the United States. We have over time set up all kinds of bodies, and they make quite a long list. Some work very well; some do not meet very often; new ones get created every so often. I do not know that anybody ever abolishes any. That would not be consistent, I am afraid, with the general philosophy of government in general on either side of the border! But the machinery is there. Everybody has a telephone; people know pretty well who their opposite numbers are in the other government. If they have business with that other government, they tend frequently to do business directly on the telephone, or otherwise. This, I think, points up the fact that if people have an attitude in which they want to consult each other before, during or after any particular event they can do so. If they are not of a mind to consult each other, the existence of the machinery will not make them do it. Therefore, it may be useful to remind people occasionally that the machinery is there, so that they use could it if they wanted to.

The second item on which I might comment is the problem of policy co-ordination of both sides. This is very difficult and very complicated, because many bilateral questions involve several elements in each government. In the United States, the matter would involve the State Department, of course, and also the Treasury Department, and the Commerce Department. It may involve regulatory agencies such as the Inter-State Commerce Commission or the Civil Aeronautics Board. The same thing is true on the Canadian side.

Ordinarily, when there are executive departments directly involved in the question, assuming that there is a strong executive, prime minister or president, these executive departments do manage to get together and work out a government position. You know that there is usually a Canadian government position on a particular question, as there is a United States government position, and then you start your negotiations from there.

Sometimes it is more complicated and this is where we get back to the question of the neighbouring country. In each government there are regulatory bodies, such as the National Energy Board in Canada, the Civil Aeronautics Board in the United States, or the Federal Power Commission. The regulatory bodies in both countries have a semi-judicial quality, and because they have this quality they cannot function in the way an executive department can function; they are not subject to the kind of discipline that can be imposed on an executive department. I think that probably we have more of these than you have in Canada but that may be because I have had perhaps more experience in dealing with them. I have a very keen recollection, for example, of the difficulty of dealing with the Federal Power Commission taken they said "We cannot deal confidentially with anything; all our business is open, and you will have to present your case in a hearing."

So the problem of policy co-ordination on both sides is accentuated by the fact that because we are neighbouring countries we cannot avoid dealing in terms of matters controlled by regulatory commissions, which are different in quality from executive departments.

The third item on the memorandum which was provided to me is the question of bilateral relations between two federally constituted states. This is another aspect of our relations. There are times when the federal government and either the province or the state are at loggerheads with each other. They simply do not have a common position, they have what appear to be conflicts of interest. It does make for some difficult and interesting situations.

I remember one or two occasions where I was instructed, when here in Ottawa in the embassy, to take up something with the Canadian government; and the Canadian government would say that that is a matter which is intirely within the purview of a given province; and it so happened that the matter had been raised by a given state in the United States. Eventually what we said was "Why does the state not talk to the province and see if they can work it out." This, despite the fact that under our Constitution the federal government is legally in charge of foreigh relations, and so is yours. There are special questions in connection with the federal nature of thw two governments.

Just a word, Mr. Chairman, on negotiating techniques; the question of the advice in the Merchant-Heeney Report, "Let us talk things over quietly and work things out", as against occasions when people speak out. Both countries contain large numbers of people who are accustomed to speaking their minds in a fairly vigorous fashion and as long as it is done in a friendly and constructive spirit this is probably a good thing, because we get things pretty well ventilated.

It is very difficult for either government to be very successful in keeping secrets. There is always somebody who wants to know and there is always some way of finding out. Nowadays, with the advent of the Xerox machine you know it is very hard for governments to keep even papers secret. They somehow tend to get distributed because everybody has a Xerox machine. I think you will

have to work on the assumption now that almost everything is going to come out in public eventually and therefore act accordingly. That does not mean you cannot do your business. It does mean, however, that there would be a situation of mutual confidence between negotiators when you are in the process of negotiation. This will mean that in the end when you reach agreement you then have a joint agreement as to what you announce publicly. It is hard to continue negotiations if there is always resort to the public word as the negotiations are under way. It just does not help the negotiations.

I have a comment on special mechanisms and joint bodies. I have been a member of the Permanent Joint Board on Defence. In the two years I served there, I thought it was a very useful body. I thought we cleared up a good many points in the defence situation on both sides of the border, because the Board contained representation from External Affairs and the State Department and the three services on each side. (In those days, you in Canada had three services.) I felt that we headed off misunderstandings and difficulties on many occasions, simply because responsible military and civilian people on both sides could talk to each other in an atmosphere of confidence about things that were developing, such as new technologies in arms, and that sort of thing.

I do not know intimately the work of the other joint commissions but I have always been impressed with the judicial and constructive work of the International Joint Commission and I think that these bodies within the areas in which they function—assuming that are staffed by people who understand each other and get along well with each other—serve a very useful purpose. In effect you institutionalize a certain range of bilateral relations by giving a particular problem to a joint commission.

As to recommendations for improvement in the bilateral conduct of relations, that matter is also on my little list here. I think the best recommendation I can think of is that the more people know about each other, the more people understand what motivates the people on the other side of the border, the better off we will be. Essentially, the standards of human conduct and the standards of human relations on both sides are fundamentally the same. The national interests differ on many things and are perceived differently by different people on each side of the border, but the more open we are in contact the better. The difficulty is of course in the disproportion in size. Canadians know a great deal about the United States and are highly conscious of what goes on in the United States. This is much less true of Americans. I would say that a larger number of Americans have become more conscious of Canadian identity, "distinctness", as Bill Diebold put it, in testifying before your Committee. This is a good thing, because it is a matter of recognizing the facts of life in the North American continent and when these facts of life are recognized, we can have a better understanding. One of the great mistakes of so many Americans over time has been to say comfortably, "the Canadians are just like us." This is intended in a benign fashion but it does not sit very well on this side of the border and, besides, it is not so.

What is true is that "they are just like us" in terms of being human beings. However, in terms of thinking of problems and policies this is certainly not the case. Unless you know the ways in which other people are different, then you can make mistakes in the way you deal with them; if you know how they are different, things can go a little better.

In my opinion you have in Canada the advantage of knowing more about us than most Americans know about Canada. Maybe this depresses you, I am not sure. Perhaps I had better stop at this point, Mr. Chairman.

The Chairman: Mr. Armstrong, thank you very much. I can only say that if all citizens on both sides of the line had the breadth of understanding of our two nations that do you, we would probably not need this study.

I wonder if I may start by asking Senator Grosart if he will lead off the questioning?

Senator Grosart: Thank you, Mr. Chairman. Again may I say how glad we are to have you back, Mr. Armstrong. We enjoyed your contribution on the last occasion and once again we have had a very interesting opening.

As you know, Mr. Armstrong, we are at this particular stage interested, as laymen, in finding out more about this machinery. I believe the layman tends to think that everything is done through the ambassador, but we know this is not so. You mentioned the telephone. Could you give us an indication of guidelines or safeguards which exist as to the use of the telephone at the various levels? For example, how many officials in the State Department or other departments would have the right to pick up the phone and call someone in Canada?

Mr. Armstrong: Normally in the State Department a Canadian government department would not be telephoned directly, except under highly unusual circumstances, either in relation to a personal matter or because there was not time for the normal routine of passing the message through the embassy. The normal procedure in the State Department would be to telephone the U.S. embassy here, or to send a telegram and either ask a question or ask for inquiries to be made to the Canadian government as to the position on this, or that, or to put forward some position of the U.S. This is probably less true of other government departments in the U.S. government. There is not any real control over activities of government departments in relation to the telephone. The State Department might ask the Treasury not to deal directly and independently, but that would not stop the Treasury from doing so if it felt like it. The same would apply to other government departments.

On the other hand, when circumstances arise which are recognized as being a major issue of policy or relations, it is normal for government departments to pull together.

A mechanism on economic affairs exists within the U.S. government, known as the Council for International Economic Policy, which was established in approximately 1970 or 1971. During the time I was Assistant Secretary for Economic Affairs in the State Department we used that mechanism extensively to arrive at interdepartmental co-ordination on positions to be taken vis-à-vis Canada, the European Community and other countries. The C.I.E.P. is a co-ordinating mechanism and within its framework a fair amount of interdepartmental discipline can be achieved.

However, as I say, everyone has a telephone and if they feel like telephoning people in the other country they are liable to do so. This just happens.

Senator Grosart: Again because we are dealing with the mechanism, I would like to ask you one or two quite simplistic questions.

Would you give us a picture, as you would see it, of the functions performed by the various levels of staff in our

embassy in Washington? When I look at the list, I wonder what they are all doing. To put it on the record, we have an ambassador, two ministers, a defence attaché, three minister counsellors, approximately 15 counsellors, attachés, first secretaries, second secretaries, assistant attachés, making a total of approximately 70 officers and, of course, in addition there is their supporting staff. At what levels would these various representatives communicate with what would come to be their opposite numbers in the United States?

Mr. Armstrong: The Ambassador, of course, deals with the Secretary of State, Undersecretaries and Assistant Secretaries and with other cabinet and sub-cabinet officers. The two ministers, of which one is economic and one is political, naturally are deputies to the ambassador for contacts. Of course, the defence attachés deal with the defence services. The commercial counsellor, as far as I know, would generally supervise the commercial work of the consulates. He also engages in the promotion of commercial interests, so his contact would be less with government than with business and the market in the United States. The cultural affairs representatives distribute a very good information bulletin with respect to Canada and are engaged in attention-getting for Canada among the American public and in American cultural and educational circles. You have an energy counsellor, who is one of the busiest men in town and a very competent man indeed.

Yes, it is a big staff. On the other hand, we are a big country and we bear a lot of watching. I would not blame the Canadian government for one minute for having a large staff in Washington to keep an eye on the United States. We carry on many activities there and it is a big country. Therefore, in my opinion a big staff is warranted. They are all very busy, highly competent and very well informed about the United States. In my opinion you get very good service out of them.

Now, in Canada the United States maintains a smaller staff than the staff of the Canadian embassy in Washington. However, I might say that I ran the economic section of the embassy in London, which is the largest section in the largest embassy that the United States maintains. The comment in that regard is that it is not that the British require all that much watching, but just that London is such a complicated centre, into which so many cross currents come, that the United States feels justified in maintaining a very large staff there.

Senator Grosart: How does a hotline work?

Mr. Armstrong: I do not really know of any particular instance in which the hotline has worked. I know that Secretary of State Rogers had frequent phone conversations with Minister Sharp when he was Minister of External Affairs and there was much personal talk back and forth between Sharp and Rogers. I know because Rogers told me about it. I worked for Rogers and he enjoyed the opportunity to talk informally and that was his hotline.

Senator Connolly: There were really no inhibitions between ministers on both sides of the border, were there?

Mr. Armstrong: No.

Senator Grosart: It depends on what you mean by "inhibitions".

Mr. Armstrong: Everyone has his own inhibitions, but there are no official inhibitions in terms of talking to one's

opposite number, to the extent that one's opposite number can be identified. Sometimes there is no exact opposite number and it is a little difficult to figure out.

Senator Grosart: One question on the multilateral side. To what extent, in your experience, do Canada and the United States co-ordinate their foreign policy positions, publicly taken, I would not say against, but vis-à-vis the rest of the world, or in the U.N. or GATT? There are blocs. Do we get together in a bloc at all?

Mr. Armstrong: It varies, depending on the forum and the institution, I would say. There are many cases where there is a very close identity of interest. For example, the Canadian and U.S. view of agricultural protectionism in the Common Market has been, shall we say, basically an identical view. We have worked together in dealing with the Europeans on a great many of those issues.

We normally have a lot of informal conversations. Before any major multilateral meeting, the U.S. normally has a lot of informal conversations with a number of governments, including Canada.

Where we have a perceived identity of objective or a smaller set of objectives, it is frequently the practice for the two to work together within the forum.

I would assume, from what I read in the press about statements at the World Food Conference, that Canada and the U.S. are working very closely together on the problems before that conference.

Incidentally, I was very interested to see the generous proposition which the Canadians put forward yesterday.

Senator Grosart: You say "informal." We are interested in mechanisms here. What would be the physical aspect of this "informal"? Would someone at some level in the State Department or in Canada phone and say, "Now, let us get together." I am not speaking about the UN or at the GATT, but in advance of this.

Mr. Armstrong: Each embassy has a sort of distribution of tasks, and frequently there will be a man in the Canadian embassy who is interested in Europe. He will talk about Canada-American relations but about attitudes toward the Common Market, toward NATO, and that sort of thing. He will talk with the people who deal with that in the U.S. government.

By the same token, there will be an officer in the embassy here who will have, as part of his duties, contact with the Canadian government on matters affecting, say, GATT, NATO, or whatever.

There is usually an informal exchange of views back and forth between the embassy and the government to which it is accredited—at both ends of the line. Then sometimes there can be, if the issue requires it, a special session, say, in which a delegation, comes to Ottawa to talk about what do to.

I remember one time when I was here we had a special session on nuclear safeguards. We had a team come up. It was long session because we were getting ready for some general multilateral exercise on this subject.

It all depends on the circumstances. If there is a perceived similarity of view, when you get to the meeting or gathering, each of our respective delegations is informed as to the conversations that have occurred in the past and what one may expect in terms of the action of the other at that meeting. They may also check before the meeting. I

myself have done this on a number of occasions in various multilateral meetings.

There is not any set rule about it. It all depends on how the subject matter and the forum shape up. Sometimes it depends on whether the officers concerned are old friends and have served in the same place before. There is a wide range of friendly acquaintanceship between the two services.

Senator Macnaughton: Mr. Chairman, my question is more or less along the same line. There have been difference of opinion, I assume, in the Law of the Sea Conference. We do not necessarily see 100 per cent eye to eye on this or on certain environmental problems. At Copenhagen, while the United States was taking one stand, Canada seemed to be taking another, chiefly over expenses, and so on. Getting back to methods of consultation, would you detect a growing trend on the part of Canadian and American departments to consult each other more and more directly and less and less through External Affairs?

Mr. Armstrong: Not necessarily. I will make this comment about the U.S. government. It may be a prejudiced view, because I was in the State Department, and I do not want this to sound too frivolous. But it has always seemed to me that the other departments were very happy to conduct their own relations with Canada until they got into trouble. When they got into trouble, they came back and said, "We are having a lot of trouble with these Canadians. Would you please help us out?" Sometimes we said, "If you had talked to us before you started, you might not be in that much trouble, because the position you have taken is not one with which you could have expected to succeed."

There is a little of that, at least on the U.S. side. I do not know about the Canadian side. Whether there is depends more or less on the state of the times, on perceived attitudes within one government towards the other. There are times when conversations are very open and easy, and times when things are a bit up-tight. These do not necessarily have any particular correlation with how serious the problem is in fact. The problem may be perceived as being serious, and frequently it is something that can be talked out, if people really try.

I have seen the lines change back and forth. I have seen occasions when it would go mostly through the External Affairs-State Department channel, and I have seen other occasions when it would spread out. It depends also on outside personalities on both sides—which minister or official likes to do business in a particular way. You have to be flexible about it.

Obviously, coordination on either side is the business of each government. If it cannot coordinate itself, it is its own though luck, but I think both governments coordinate themselves quite well.

I should like to go back to your first comment, senator, concerning the case where there is a difference of opinion, or difference of policy. It still is a very good idea, in my judgment, to keep up the conversation, because one may eliminate apparent differences which are not really that bad, and one may educate each other by dealing informally on issues, even though the policies of the two governments are quite different.

It is a matter of agreeing or disagreeing and of knowing where you are. This is better than not knowing. If you are dealing with a multilateral matter and the Canadian posi-

tion is distinctly different from that of the U.S. position, you each may go around and lobby for support for your own position among other countries. That is fair enough. That is just politics. Everyone does it. But it does not mean that you do not talk to each other to find out what the other fellow's position is.

One of the basic functions of diplomacy, as I see it, is to make sure—if you are working for the U.S. government, as I did—that if there is a clear U.S. position on the subject, the Canadian government knows what it is, whether it likes it or not; and vice versa, to see to it that one's own government has a clear picture of what the other government's position is.

Not having an accurate picture can only lead to more trouble. It is better to recognize honest differences of opinion. If you cannot reconcile them, go talk about something else and find some other business that you can agree on.

Senator Macnaughton: That certainly answers the question in general. Coming back to this question of natural trends, because there is a 3,000-mile border we obviously have a great many common interests, such as environmental and trade, and there are constantly changing opinions and shifting of positions from the East to the West. I suppose it follows that the various Canadian departments might like to paddle their own canoes. I am dogmatizing, which I really should not do, but it would seem that External Affairs are giving up some of the trade relations they should be looking to, as well as some of the environmental issues, and other things.

Your point, I take it, is that we need to apply a basic policy and let the other departments operate in whatever fashion they can and, when they get into difficulty, to then come back to the basic policy. Is that your position?

Mr. Armstrong: It is my view that if a government does not have a coherent policy in dealing with other governments, it will lead to incoherence and confusion. Governments need to know where they are going and what they want. They have to be realistic in terms of what they can achieve, but I think co-ordination between governments is essential in this modern world.

In many respects, we have seen foreign affairs become something that is less off by itself, and something which includes more of life in general—the environment, energy, highway travel, or whatever. Relations between neighbouring countries get very much into the way people live and work. Therefore, foreign affairs have an increasingly domestic component, shall we say, and domestic affairs have an increasingly international component. Under these circumstances, it is quite logical for the foreign affairs people to feel that their functions diluted, although that is not really the case. What is happening is that new areas are constantly coming into play and have to be taken into account by the people who are involved in the formal relations between governments, and that makes life more complicated. It simply means that, internationally, people have more contact with each other and the relations between governments have to reflect that fact.

I think right away of Marshall McLuhan and the Global Village. We are moving towards more and more contact across borders, and it is not surprising, therefore, that these types of contacts spread out. I do not think it really changes the essential quality of the political relationship

between the two governments. It will modify it, but it does not affect the fact that there is an essential political relationship between the two governments. The heads of the two governments meet, as do cabinet ministers, and so forth, to try to settle important political questions.

Senator Macnaughton: Pushing that a little further, perhaps to the ridiculous, what about the desire, if I can call it that, of provinces and states to get into federal areas? Some Canadian provinces wish separate setups in Washington to carry out their own private lobbying.

Is the State of Maine, for example, in its dealings with Canada, represented by the State Department 100 per cent, or would it like to have its own information offices in Montreal, Toronto, and other major centres? The Province of Quebec, for example, has information offices in New York and Washington. There seems to be a growing desire on the part of our growing provinces to move in that direction, and I am wondering whether that is the case with some of the states of the United States?

Mr. Armstrong: Having served in London, I noticed that many of the Canadian provinces are represented by separate offices, and I believe that is also the case, to some extent, in Paris. We have a growing situation in the United States where various states want to be represented abroad by their own offices. Many states have their own missions in Brussels, and when I was serving in London there was a Port of New York Authority Special Mission located there. It seemed to have a good budget and kept talking about what a great place New York was.

Many states are burgeoning in that respect. I believe the State of Maine has an office in Montreal. It also has an office in New York which is, to some extent, a foreign country to many people who live in the State of Maine.

You will find the purposes of most of these offices relate to the development of business or the encouragement of investment in the individual states. Many states of the United States, as well as localities, are engaged in setting up missions in various places in Europe for the purpose of encouraging investment and, as well, many states have industrial development programs eagerly seeking investment capital from Germany, France, and other European countries. South Carolina, for example, has a very elaborate program for the purpose of attracting foreign investment. I think there is more German business in South Carolina now than in any other state of the United States, and they are now going after investment capital from the Arab nations. There already has been one very large real estate transaction take place in South Carolina with capital from Kuwait, and they have no qualms about this at all. Foreign capital is providing a good deal of industrial development. A good many of the states are vigorously pursuing such programs, and this will probably increase. The State of Pennsylvania has an office in Geneva.

On a constitutional basis, states of the United States do not have the same strength as do the provinces of Canada in terms of external affairs. The Canadian system is more of a duality, whereas under the U.S. system the states have no business in foreign affairs at all. However, there is nothing wrong with promoting commercial activity, which is what they are doing.

Senator Macnaughton: One last question on joint Canadian-U.S. bodies. You have already referred to the International Joint Commission, Mr. Armstrong, which, as we all know, has a good record of success. You also

referred to the Border Defence and to the Pacific Salmon Commission.

I realize the Roosevelt-Campobello International Park is a small thing, but I know we learned a good many things in the operation of that small park in conjunction with the representatives from the State of Maine. There were many compromises involved in the operation of that park, and, in the process, such compromises turned out to be very educational for both sides. The point I want to make is that in theory these joint commissions do pay off.

What would happen in the event of a future oil spill in the Strait of Juan de Fuca? Do you feel there would be an international joint committee set up to deal with it, or what course might be taken?

Mr. Armstrong: I think we would move in that direction. As you know, concern over oil spills in the Strait of Juan de Fuca has been countered, to some extent, by the fact that it is felt we had better look at oil spills in oil destined for Canada in Casco Bay, Maine. After all, it is not oil coming to the United States, but merely passing through. Having been a legal resident of the Casco Bay area for a long time, I have an interest in this. I am glad when Canada is able to work things out with the officials of the State of Maine. They are sometimes difficult to deal with, but they have a very strong interest in Canada. There is a real awareness of Canada and a real interest in Canada, which is not unrelated, of course, to the tourist trade.

In respect of oil spills and environmental matters, a certain amount of work has been done by the IJC, particularly on the Great Lakes. I do not know whether recommendations made by the IJC are implemented as well as or as quickly as they ought to be, but there is nothing wrong with what they recommend. I think there is a real awareness of environmental matters in the United States, and I think there is also a very strong concern about the possibility of oil spills in the Strait of Juan de Fuca. Assuming there were an oil spill in the Strait of Juan de Fuca, I do not see how it could be dealt with except on a joint basis.

I was serving in Britain at the time of the *Torrey Canyon* disaster and I have seen the mess this sort of thing makes. If we keep working at it I think we will get to the point where there will be joint ways of dealing with these things. It takes time to work it out and it takes some yielding of sovereignty to a joint body, or something like that. It has worked in other instances and it can work again. We have to do these things together, because we all live on the same planet.

Senator Connolly: The first thing I should like to say to Mr. Armstrong is that, in view of the fact that he has a 14-year-old Canadian son I would like to give him a couple of Canadian flag buttons to take back to him as a memento of his visit. I will do that right after the meeting.

The question I have in my mind has really been asked by Senator Macnaughton, but perhaps I could pursue it just a little. Mr. Armstrong talked about not only the relationships between the two countries but certain aspects of our relations between neighbouring states and provinces across the border. It seemed to me that generally on larger problems these state-province relationships were pretty well conducted under an umbrella of a treaty, or perhaps a recommendation of the I.J.C. I am thinking particularly, for example, of water problems between British Columbia and the Pacific northwest. I am thinking too about the agreement with reference to the cleaning up of some of the

Great Lakes, particularly Lake Erie. I could not think, though, of a specific example of a province-state agreement. I do not suppose it is a province-state agreement as such, even if there is a relationship. Perhaps Senator Macnaughton's example of co-operation between the neighbouring states and New Brunswick over Campobello is a good example. I suppose that kind of relationship between the governing bodies in the states on the one hand and the province or provinces on the other will be pretty much a matter of private contract between them. But to me the area is a bit fuzzy. I wonder if you would like to comment on that.

Mr. Armstrong: I think you are dealing with a set of phenomena that do not fall into any neat categories. You have some sort of matching across the border. There is the State of Washington and the Province of British Columbia. Washington is not the only state on which British Columbia borders, but it is the major state, so there is a fair amount of informal back and forth between that province and that state, which is all to the good, because if they understand each other and get along well, that is fine.

Senator Connolly: In what areas particularly? Roads or bridges?

Mr. Armstrong: Roads; when the border is open, when customs people are there; when immigration people are there; housekeeping to facilitate going back and forth. There has been that complicated problem of Point Roberts, on which I think there has been a fair exercise of local initiative in solving a problem which is just a sort of accident of geography.

The Chairman: Perhaps I could interject for a moment here. Coming from British Columbia, I know there are a number of other things, such as the provincial government, interjecting itself into the gas business. For instance, the main gas lines in British Columbia go down into the State of Washington. When water seeped into the gas wells last winter the B.C. government cut off gas into Washington state so there would be no short-fall in British Columbia. These are very fundamental things, much more than roads. You get it in energy. You get the B.C. government owning the B.C. Hydro which has an electrical interchange with the United States. You get a former government having entered into a contract with Seattle Hydro to raise the Ross Dam and flood back into Canada. Far from informal contacts, the Premier of British Columbia goes down and has formal meetings with Governor Evans of the State of Washington and they issue communiques. It is quite extensive.

Mr. Armstrong: It is probably the best example. Ontario borders on so many states that you do not get the same sort of thing.

Senator Connolly: Could I stop you both there, because I think what the chairman has said is exactly the kind of thing I had in mind here. I suppose the resolution of those problems and the reaching of an agreement is more in the nature almost of a private contract, even though public bodies are involved, as distinct from a formal treaty between the two countries. What you are dealing with ultimately is a contract, isn't it?

Mr. Armstrong: I think so. You would have similar agreements within the United States between, say, the State of Oregon and the State of Washington. During the war you could not get enough whisky to drink and the two of them had state liquor control systems; they could not get

supplies from the private wholesalers because they discriminated against the state system. Oregon and Washington therefore combined forces and bought a distillery in Kentucky and had their own brand of bourbon. This is just a very frivolous example of how two states can decide to work together.

There are all kinds of agreements between individual states. You may have noticed the excitement about Mr. Ronan in New York at the moment. New Jersey has raised the question of whether Mr. Ronan could be a fair chairman of the Port of New York Authority, which represents both New Jersey and New York, if he got all those gifts from Mr. Rockefeller. I think the New Jersey legislature is going to investigate Mr. Ronan to find out whether he has been fair to New Jersey. The New York Port Authority is a bi-state arrangement. There is no reason, to my way of thinking, why similar arrangements cannot be made between provinces in Canada and states in the United States, although they should tell their respective federal governments to see if there is any objection.

Senator Connolly: Does this infringe upon the right of the federal authority in either country to conduct and conclude international arrangements and agreements?

Mr. Armstrong: I think technically it does. You may have to have some kind of an umbrella agreement that would legitimize it, and for good form one should. However, you have representative governments on both sides and as long as what they are doing represents what the people want them to do I am personally not one to worry too much about the formalities. If people understand each other, fine.

Senator Connolly: We cannot ask you, of course, whether British Columbia or any other province, might be infringing upon the federal authority in international affairs in Canada, but suppose there were some kind of agreement between, say, officials of the State of Washington or the City of Seattle on one hand and the Province of British Columbia, through the Government of British Columbia, on the other hand, would the State Department look at that? Would they be concerned about whether or not there was an infringement of the jurisdiction of the federal authority there?

Mr. Armstrong: I would think that as long as whatever was being done satisfied the people in a given locality in the United States and did not infringe on the interests of other Americans in some other locality, there would normally be a relaxed view about it. It is recognized that a lot of these problems have to be dealt with locally and if they can be settled locally, fine. If what was agreed upon between, say, British Columbia and Washington in some way disaffected . . .

Senator Connolly: Disaffected California?

Mr. Armstrong: Yes, if this disaffected California or Oregon or Idaho, then this would be a matter involving some element of the federal government—whether it be the Interior Department or some other department—which it would be, I would not know—and it would have to be resolved.

Senator Connolly: In other words, to be practical about it, suppose that British Columbia said "Sure, we are going to sell gas but we are not going to sell it to anyone but Washington, we will fulfill their requirements," thereby disaffecting Oregon, Idaho, or perhaps California, is that

the kind of situation where the State Department might say "But this is almost verging on the point of an international treaty, you are doing something here that we cannot countenance."

Mr. Armstrong: I think it would depend in part on whatever the nature of the contractual relations might be. If you have a contract to supply gas and there is a term in this contract that says you can cut it off on 60 or 120 days' notice, and you are within your legal rights in cutting it off, then okay, there it is, you can do it. I think a good deal would depend on how the contract read, and the extent to which is complied with normal standards of law, which are not too different across the border.

Senator Connolly: Thank you very much.

Senator Rowe: Mr. Chairman, did I understand you to say that this meeting is *in camera*?

The Chairman: *In Camera*, yes.

Senator Macnaughton: Mr. Chairman, might I give you an example which might be useful? In regard to Campobello there is a treaty negotiated between Canada and the United States, passed by Congress and passed by the Canadian Parliament. The ownership of the land rests with New Brunswick, obviously. Canada and the United States agreed to pay 50 per cent each of the cost of operation, but the province has representation on the board of directors. I forget the number. It may be the chairman or other people but it alternates. That is the way they solved that.

Mr. Armstrong: Yes, you can find some way around this problem. For example, I was here in Ottawa when the Columbia River Treaty was being negotiated and, I guess, when it was ratified. But that was not the end of it. There had to be a very elaborate arrangement worked out between the Bonneville power authority and the other power authorities in the State of Washington, and everybody else, with British Columbia, in order to make the operational structure functional, to make the treaty work. These things can be done. It is complicated, but then life gets more complicated all the time.

Senator Rowe: Mr. Chairman, I am not sure that I have any questions and I am not sure that I should even comment at this time. If our guest does not want to comment or does not want to answer any implied question, that will be all right with me. This is something that has been in my mind for some time, not just this morning. However, by coincidence I was reading the *Montreal Gazette* this morning. I do not know whether it turns on the scene or not. There is a very lengthy article, taking the best part, if not the whole, of two pages of the newspaper, on the activities of the Central Intelligence Agency. This article is written by two American journalists, and I am quite sure that it was originally published in the United States. Anyway, it summarizes a lot of things that have become apparent in recent weeks and months and which have been given wide publicity either by periodicals or other media in the United States.

While we were talking here this morning I was wondering to what extent the legitimate operations and relations—and I use that word in quotation marks—between, let us say, two countries like yours and ours, could be jeopardized, or whether the effects, or the hopeful effects, could be nullified, by the undercover activities that we know are taking place in other countries.

Right now I understand the head of the CIA is taking a holiday in Spain and Portugal and there is quite a lot of alarm, I am told, over the fact that he is holidaying there. It is just like the Navy, "brass band" that went to Chile, and that occasioned some comment. There we are, we do not know—at least I do not know—whether the Agency has ever carried out any extensive activities here, although in the light of what is emerging I would be surprised if they have.

There seems to be this danger. I do not think the danger applies so much to Canada, because I do not think we have any kind of government agency similar to the CIA. If we have, I do not know anything about it, and I have been told, as a matter of fact, by responsible authorities that we do not have one or anything even remotely resembling this. But I wonder to what extent relationships can be affected even between Canada and the United States, what protection we have against the destabilization process which is in that. If you do not want to say anything about it, very well.

Mr. Armstrong: I would like to comment a little on that. In all, we have to recognize that large governments that play a major role in international politics normally have such services. The British have had such a service for a long time. The Russians have such a service and the Chinese have such a service and the Israelis have such a service. As to the extent to which these services function, first they are information gathering services. All governments have some form of intelligence gathering so there is not any particular problem about that. The question comes up of extra-legal, political or other activities. This obviously is something in which a lot of governments feel they want to have some capabilities. The United States, when it set up the CIA right after the war, was operating on the basis of wartime experience. In wartime such capabilities were exercised by intelligence services in a number of countries. British and American support for the French underground is an example, and it had a lot to do with the liberation of France. This carried on after the war and there was a decision to have such a capability. This leaves the question of how to control it. Obviously there is real concern in the United States over the extent to which this is a controlled activity. It is a controlled activity, but there can be an argument over who exercises control. One may question the judgment of the controller on occasion, but it does not operate on its own; it operates under the President.

Personally I could not think of anything more likely to be injurious to Canadian-American relations than the exercise of any such activity by such an organization in Canada. I think that the good sense of the people who control it would indicate the same view. To the best of my knowledge, there never has been any such activity.

We are having a debate in the United States now, over what should be the nature of this service, how it should function, should it do these things, should it not. I believe Mr. Colby has been quoted as saying that this is an open question, as to the nature of the activity. I know Mr. Colby. He is a very fine public servant, a very fine person.

The Chairman: Mr. Armstrong, as a supplementary to Senator Rowe's question, would there be any significant unput from the CIA on other decisions being made in the normal course, vis-à-vis Canada, for instance, through the State Department or other departments?

Mr. Armstrong: The CIA is not supposed to be a policy agency. It is not supposed to make recommendations on policy. It is supposed to be a service agency. Obviously, it has its own views on policy matters, but within the CIA itself there is a variety of views amongst its people. Most of the work of the CIA is overt intelligence and research, a good deal of which is in the economic field.

The Chairman: So it would have an input to that extent?

Mr. Armstrong: It would have an input in terms of the information base upon which the government arrives at its judgments, certainly, but we do not have a single intelligence operation. We have also a military intelligence operation, a State Department Intelligence Bureau, and all government departments do some of their own work in this area. Therefore, if any one of them tends to get very far off base, there is a counteracting influence, with one agency taking the position that the report of another agency is incorrect. So, we have a competitive system in that respect, which is the best way to get things sorted out.

Senator Rowe: Mr. Chairman, one further point apropos the comments just made by Mr. Armstrong. Mr. Armstrong says he does not see any danger of any undercover activities jeopardizing our relationship. Is that not precisely because it just happens, by chance, that the CIA, or some other such bureau of the American government, feels that our system is all right? Bearing in mind what Dr. Kissinger is alleged to have said about the Chilean government and the inference about other governments, if they do not like the type of government, they then feel they have a right to go in and destabilize that government and encourage political assassinations, and this and that, with the hopeful result of destroying the government.

Senator Croll: Just one minute, senator. Someone is going to read those comments about Dr. Kissinger suggesting political assassinations are in order.

Senator Rowe: Senator Croll, I did not say that, as it happens. I am simply relating what has been quoted in the papers and in *Time* magazine as to what Dr. Kissinger is reported to have said—and he has not denied it—about the Chilean government and, by inference, about other governments. We do know, whether deliberate or not, that the activities of the CIA in Chile did lead to political assassinations and the destabilization of that country's economy with the resulting overthrow of the government. I do not think we need go into that now. I simply wanted to make the point that the fact that to this point nothing like that has happened in Canada is that the Canadian government is considered to be a good one. However, if some province, or Canada as a whole, elects a government that is, in Dr. Kissinger's opinion, irresponsible, then we could very well expect some attention from such agencies as the CIA.

Senator Macnaughton: A supplementary, Mr. Chairman. We did have some trouble in the province of Quebec a few years ago. Certainly long before the trouble arose and during the course of the trouble, the Americans were very active in gathering information and assessing the situation which, in my opinion, was quite a legitimate activity for them to indulge in.

The Chairman: Surely, it would be perfectly legitimate for the United States to be concerned and prepared to take action, if necessary, if the province of Quebec were to separate from Canada and the islands of St. Pierre and

Miquelon were to fall into the hands of a communist state for use as a staging site for rockets. I think there is a point where that type of activity does become legitimate. Hopefully, we will not develop governments in Canada that will result in this type of activity becoming necessary or legitimate.

Senator Carter: A further supplementary, Mr. Chairman. I agree with you that a good deal of the activities of the CIA are legitimate. As long as we have the communist bloc countries, specifically Russia, with agencies whose purpose it is to disturb and overthrow governments, surely the Free World must have a counteragency to find out what is going on and to take whatever measures are necessary to maintain freedom. However, I do want to make the point that with respect to the Gulf of Tonkin, and other such ventures, they actually manufactured evidence with the result that policies and actions were based on incorrect and sometimes false information.

The Chairman: I do not want to inhibit the committee in its discussion, but I would like to keep this confined to Canada-U.S. relations.

Senator Carter: It does affect Canada-U.S. relations because it arouses fears in Canada, and also a chain of events could be set in motion whereby Canada finally has to become involved.

Mr. Armstrong: I would just make the observation that one of the problems in this connection is that people are quite free to write what they want about the CIA, whereas the CIA is not always free to respond. Some of the things written about the CIA are true, but others are probably not true.

Senator Carter: Propaganda, perhaps.

Mr. Armstrong: The writing may be done with a partisan purpose in many cases. The people who write these things may well believe them to be true, but there is a good deal of hearsay involved, and obviously the CIA is not in a position to respond.

I think the role of these agencies and their activities in the United States is likely to be a minor one in future terms, unless the assessment of the world political situation is such as to get people to have the wind up. At the moment, I would say interest in this type of thing is dwindling, and criticism of the CIA is mounting in the minds of the public. A redefining of the role of the CIA may well be in order at this time.

Senator Connolly: Mr. Chairman, one thing we should bear in mind is that there are times when the work of the CIA is essential to the security of the United States. I think we all recognize that. Let us also recognize that very often that kind of activity is of great value and assistance to Canada. This was certainly true during the war. My own experiences, and, I am sure, the experiences of many other honourable senators during the war, leads to that conclusion.

I am sure no honourable senator wants our record to show a very strong bias and criticism of the work of the CIA. I think the comments of Mr. Armstrong in this regard have been very helpful, and I do not think we should have any real concern about it. It is certainly in order for us to express the hope that such activities will not affect Canadians, and in respect of the worst of these stories, such would not be the case, and I use the word "Stories" purposely. So many of the activities engaged in by the

Americans are of great benefit to us in terms of our defence and our own national security.

The Chairman: Thank you for those comments, Senator Connolly. I think most honourable senators would agree that in the context of our examination on co-operation and co-ordination between our two governments, this question of the CIA is a comparatively small point, although a point well worth bringing up.

Senator Croll: Following on Senator Connolly's remarks regarding the relationship between the provinces and the individual states of the United States, back in 1930, when we had power coming out of our ears in Ontario, I was with the government, and we sold in those days power to Massena and other places. We did it on our own. Years later, when I was in Parliament, power got very tight, and there was some suggestion that it might be cut off. Then the State Department intervened—in addition, of course, to the State of New York itself—and said, "You really cannot do that sort of thing. These people are as much part of you as Ottawa is. They rely on you. There is no other way we can get power for them." That was a case of intervention by the State Department, and power continued to be sold as though it were being sold to the province of Alberta, or anyone else, and there was no real problem about it. New York State has an office in Toronto, and other offices elsewhere. The relationship, as a matter of fact, is better between New York and Ontario than it is between Ontario and Alberta at the present time. I think that is a fair statement.

Senator Connolly: Yes, that is a very conservative statement.

Senator Croll: Yes. I will get back now to a question that you may not wish to answer, but I will ask it anyway.

I have been an old Windsor hand for half my life, having lived in Windsor half my life, so I know the Americans pretty well. It has always been my impression that when Democratic governments were in office in the United States, and Liberal governments on this side of the border—or whatever government it might have been—our relations with the Americans were better and softer and more understanding than if we had Republicans. I have tried to decide whether that was because of philosophy, or what it was, and I find that there is no great difference in philosophy, so far as Canada is concerned, between the governments. Then I look around for personalities, to try to see if that would make a difference. I find it hard to understand that, but I think it is a true statement that I am making. You have been here a long time, and you can understand. I am just trying to work something out. Assuming I am correct, what do you attribute it to?

Mr. Armstrong: Well, there is such a variety of philosophy and personalities within what is called the Democratic Party, or within what is called the Republican Party, that it is a little hard to say. I think it usually depends on what the issue is at the time, and the personalities.

I think, in general, that it has been true that Republican administrations have been reputed to be more conservative in economic philosophy, and more conservative in foreign relations; but it seems to me that this has been somewhat belied in the case of the Nixon administration by its going in for wage and price controls, which no Republican administration ever thought of before, and going in for opening up dialogue with The People's Republic of China, and for détente with the U.S.S.R.

Now, these three particular phenomena, I would say, most people would not have predicted for the Nixon administration, back in 1968, when it was elected.

I used to be a Democrat, but I gave it up, and now I am more or less of a Republican. I do not really see much difference in the attitude of the parties toward Canada. The Eisenhower administration had a very friendly attitude towards Canada, as far as I could tell. I recall being here when Mr. Eisenhower came to Canada in 1958, and it was a friendly occasion. Mr. Nixon's attitude towards Canada, I think, was quite understanding. I do realize that there was some objection to his Secretary of the Treasury, Mr. Connally...

Senator Croll: Serious.

Mr. Armstrong: ... and we had some objections in the United States, too, including within the United States government; but Mr. Connally, of course, was a Democrat...

Senator Croll: Hold everything! He was a Democrat like you were a Democrat. He turned.

Mr. Armstrong: He was a Texan Democrat. That is a very different thing from the kind I was.

Senator Croll: That is right.

Mr. Armstrong: But, you know, it is an interesting point to speculate about. I have thought about it many times myself. I am not sure it goes anywhere in terms of any conclusions, and if you got a graduate student to work on a dissertation on it, he would have conclusions that would be so heavily qualified in all directions that it would be a little hard to tell where he came out.

Senator Croll: But let me just give you an example that might be a little unusual. For instance, our relationship with your Secretary of State. I think one of the few people that could call Dulles by his first name was Mike Pearson, and he had that relationship with Acheson, and with Ball, and with almost all of them. The new relationships that we have in that area are not of that nature. It has somehow changed in recent years with the presidency, that easy, slow, first-name relationship, that calling up. That was not there with Sharp who, of course, is the only one we have had since then, but it just is not there, and it is not there on either side. What happened?

Getting back again, for a moment, to Connally. I do not know how much damage it did—I do not think it did any damage at all, although I do not know—but one of the greatest let-downs that I can think of within recent years, and one of the greatest disappointments, was the fact that Connally said, "Canada? Same as anybody else," whereas formerly we had always been treated somewhat differently, and we have felt the same way towards the United States. That was something that represented a complete break with yesterday, and was resented in this country bitterly, although without saying very much about it; but that situation has never been repaired. You see, a Canadian who sits back and hears a president make a statement about trade relations who does not realize that we are his customers, is a thing that bothers every Canadian, whether it should or should not. Every Canadian feels it. If somebody did not brief the president, that was their fault. They should have briefed him. He is not supposed to have all these things in his head. But those sorts of things never used to happen, and all of a sudden these little irritants that bother us, although perhaps not important in them-

selves, appear, and they do add up. What is bringing that on?

Senator Grosart: We had, "Fifty-four forty or fight!" We had, "No truck or trade with the Yankees!" so it is not anything too new.

Mr. Armstrong: One comment I could make on Mr. Connally is that he was Secretary of the Treasury at a time when we had conditions that were totally unprecedented in the recollection of anybody in the United States government. We had an enormous deficit on trade account which amounted to \$12 billion. We had a substantial deficit on balance of payments accounts also. We had not had a deficit on trade accounts since the 1880's. Mr. Connally was Secretary of the Treasury, and it was his duty to do something about it. When he looked, in what was much too simplistic a fashion, at the numbers, to find out where we were out of balance, the primary place was Japan, and there people felt that there was an explanation. The Japanese were highly protectionist, they were subsidizing their exports, and they did things you know, that gave them an unfair advantage, people felt.

The other imbalance showed up in the account with Canada. That was a trade imbalance, and it overlooked the fact that on investment and on invisibles there was a very favourable position. I think Mr. Connally reacted in a very sharp fashion to a rather simplistic view of the situation. His own background had not led him to have any previous contact with Canada that I know of, and Mr. Connally is a very strong personality. I went back to the State Department in 1972 as Assistant Secretary at a time when Mr. Connally was still Secretary of the Treasury. I would say it was recognized by people concerned with Canadian affairs—I realize we are *in camera* here—that damage had been done, and the repair of damage always takes longer and is less visible than the occasion of the damage. Therefore, it took a little time.

I think the state of general relations has improved since that time. Mr. Connally has not been Secretary of the Treasury since May, 1972; I do not think his attitude was carried on by George Shultz at all, and I do not think his attitude is carried on by Bill Simon. As I said earlier, the relationship between Mr. Sharp and Mr. Rogers was very good. I do not know about the relationship of our present Minister for External Affairs; I am just not informed on that. I would, however, observe that Mr. Connally is no longer Secretary of the Treasury.

Senator Carter: With respect to the two magazines *Time* and *Reader's Digest*, we find ourselves in a bind. The problem goes back several years, to 1965, when we had to make exceptions for these two magazines because of pressure brought on our government, so we are told, by the State Department. Now we are faced with the same problem again.

The Chairman: The theory being that Mr. Luce had some influence in the State Department.

Senator Croll: I do not think it is fair to say it was both of them. It was one of the magazines. You are talking about *Time*.

Senator Carter: Yes.

Senator Croll: The other magazine is purely Canadian. It is printed here; it has become citizenized for all purposes.

Senator Grosart: Every Canadian does not agree with that.

The Chairman: I think Senator Carter's question is the suggestion of pressure through the State Department on the Canadian Government relative to that issue, not the merits.

Senator Carter: Yes.

Mr. Armstrong: I think it went back to before 1965. When I was in the economic side of the State Department in 1956-57, before I came here on posting in 1958, the question of disallowing a deduction for business purposes for advertising costs, for advertisements placed in *Time* and *Reader's Digest*, was an issue. I know it is generally believed in Canada that the reaction of the United States Government on this matter was very much one of pressure being put on the United States Government by Mr. Luce. This was not really entirely the case. There were a good many people in the ranks of civil servants, in the State Department and other government departments, who were very much concerned about this issue as a point of principle before there was really very much excitement on the part of the Time-Life organization. This was pursued as a point of principle by the United States Government all along, beginning whenever the issue first came in in 1956-57.

The issue came up again when I served here between 1958 and 1962, and I know that *Reader's Digest* took one approach to it and *Time* took a different approach. I know it has continued to be an issue. However, it was not quite as much a matter of knee-jerk reaction of the United States Government once Mr. Luce spoke as it seemed to be. I know Time-Life executives, and I know they were concerned. I do say that there was a considerable input by the regular established bureaucracy, being disturbed about this, because they felt it was not the right way to proceed.

Senator Grosart: Perhaps I could make a comment on that. Does this not raise the whole question of extra-territorial legislation? Here we have a case where the Canadian government was saying that if there is Canadian advertising in an American publication it will be discriminated against in Canada. I say that because we hear a lot of talk about the privileges extended to *Time* and *Life*. I do not see any privileges at all. Quite the opposite. We are faced with this whole business of Canadians saying that if you advertise in an American publication you are then actually engaged in extra-territorial legislation. Let me put it the other way. If the United States government said that if anybody advertises in a Canadian publication that has a circulation in the United States that money will not be tax deductible, we would scream like murder about extending United States law into Canada.

Mr. Armstrong: The point that was thought important from the standpoint of principle was that an investment is made and the investment works on the assumption that if you sell advertising it is a business expense the same as it is anywhere else, and changing the ground rules is in effect changing the ground rules under which the investment is made. This is essentially the point of principle that people were concerned about. I might say that it was rather amusing in a way that the people who were most concerned about this from the standpoint of principle—some of my friends in the State Department—were people who did not like *Time* magazine and wished they had a differ-

ent client for which to argue the case, but they felt they had to argue it anyway on grounds of principle.

Senator Croll: Four of us here, including the chairman, are lawyers, who fail you on law with respect to your extra-territorial approach.

Senator Grosart: You are the only one who says so.

Senator Croll: There are four of us who fail you.

Senator Grosart: I don't care, because I have studied this and I am quite sure you four lawyers have not.

The Chairman: As we have had a round robin, I wonder if the members of the committee would forgive my interjecting?

Senator Grosart: May I add that I am not arguing for *Time* and *Life*. I am arguing that principle.

The Chairman: Perhaps I might now change the subject slightly and ask a question of Mr. Armstrong that is in my mind. The question is a little sensitive to put to you as a life-long member of your State Department. However, I detect that when different government departments on both sides of the line are anxious to pursue a certain policy, and are required to do so through either the State Department or, in our case, the Department of External Affairs, there is a substantial tendency for the State Department or External Affairs people not to act as a conduit but to get busy making the policy. I realize they have to be much more than just a conduit; they have to have an input into the policy, but they tend to set up a whole expertise of their own, which a department in a finite field, whether it be fisheries or energy, or something else, may find is entirely different from its own, so it will try to go round the State Department and External Affairs so as to pursue its objectives.

During your remarks, you made reference at one point to the possibility of some sort of umbrella to legitimize these other contacts between our countries. Have you any comment on the desirability of any type of an overseeing secretariat, which would not make policy but would only be a clearing house so the left hand would know what the right hand was doing all the time?

Mr. Armstrong: In principle, this is the kind of thing that both External Affairs and the State Department have on occasion sought to do. They have talked in terms of "Where are we now?" When I was here as minister in the embassy I had a periodic—I guess it was weekly—meeting with Ed Ritchie—and I am so sorry to hear of his illness, he is an old friend. We had a regular sort of session periodically, with a runover of the current issues, who was dealing with them, where they were, and when we could expect this or the other thing. This worked both ways. It was useful and I think that to some extent this is done now. I am not sure. I think it is very useful to have that sort of thing back and forth.

I do not think you need any special new structure to do it. I think you can do it if the senior people concerned in the two respective departments, want to do it. It has a good deal of value, because then you know what the landscape looks like.

On the point of individual departments having their own view, and the State Department or External Affairs not wanting to be simply a conduit, I think the view there would be that the State Department and External Affairs would feel they have the primary responsibility to deal

with foreign relations, that a particular issue may be so important that it is going to have an effect on those relations, and therefore they feel they have a right to say something about the way in which things are done and the way in which policies are developed and ask the question "Is this trip really necessary?" I think it is logical that the Secretaries of State and External Affairs would wish to be informed, and to participate in the policy judgment.

Senator Grosart: Could I ask one question that has not been asked? Do you think that the present machinery for our Canadian-American relations could be improved and if so, how? You are off the record.

Mr. Armstrong: One of the shortcomings is this. First, I do not think we need any new machinery, we have got enough machinery. Some of it has not been used and is getting a little rusty. For example, both governments ought to be able to face up to a session of the Joint Committee on Trade and Economic Affairs, which is at the cabinet level, to sort things out in the post-Connally era.

I do not think either government has been particularly anxious to have that committee meet in the last two or three years, and probably there were compelling reasons on both sides. It seems to me that this would be a useful exercise to suggest at this time.

I was among those in the State Department who felt that it was not a good time in 1973 because things were too sticky on both sides. It seems to me these things have been shaken up now and both countries are confronted with a new situation in the world—one of food shortages, energy problems and rampant inflation—and it might be useful to do this.

It is also important to keep the perspective going, that this is not just a matter of bilateral relations but is a matter of the roles being played in the world by Canada and the United States. Frequently, given the state of the world, we can stop and recognize that both countries have an opportunity to be highly constructive in what is really a very dangerous world situation. It may be that they will resolve some of their bilateral problems more easily if they get busy dealing with some of the global ones.

Senator Grosart: I think, for example, of our often divergent problems on levels of external aid to developing countries.

Mr. Armstrong: Both countries have put a lot of resources into this. It has been more popular in terms of public support in Canada than it has in the United States. Now, with the shift of wealth to the OPEC countries, there is a feeling on the part of many people that it is about time those countries carried a share of the burden. I think they will come around to doing so. After all, it is only a few months since they suddenly began to quadruple their income and all the consequences of this is by no means apparent as yet. Those consequences we know about are all gloom-inducing all around the world. Canada is in a particularly fortunate position, in that it is self-sufficient in energy and is a major food exporter.

I very much welcome this reported announcement of food aid, because it is more than ever necessary. What I am concerned about is that, speaking in general terms, global terms, the position of the developing countries that do not have oil is so bad, in terms of their increased bills for oil, increased bills for food, their difficulties in selling exports which they will have because of the balance of payments deficits in developed countries—that we may be confronted with some highly serious political situations in such countries within a year or so.

I think it is a matter of responsible leadership for the countries that are well off, both the OPEC countries and the industrialized countries, to pay attention to this, because we could be very sorry.

Senator Grosart: I remember a statement by a Secretary or Assistant Secretary, I cannot remember who it was, but it was a very senior official, that it did not make sense to continue giving aid to developing countries who had negotiated what were in effect reverse preferences with the European Community.

Mr. Armstrong: The European Community has given up its reverse preferences and that problem is taken care of, I think.

The Chairman: Honourable senators, we can continue our conversation privately. Mr. Armstrong, thank you very much for a most informative and frank discussion which has been of great assistance to us.

Mr. Armstrong: It has been a great pleasure to be with you, and I have enjoyed the dialogue very much.

APPENDIX "B"

EVIDENCE

NOTE: In accordance with a Resolution of the Committee dated December 5, 1974, these proceedings are printed with the agreement of the witnesses concerned

Ottawa, Thursday, November 28, 1974.

The Standing Senate Committee on Foreign Affairs met *In Camera* this day at 9 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, before proceeding with today's business, I might comment on one or two matters.

I apologize to you for the cancellation of the two events last week, as a result of circumstances beyond our control—namely, the reception we planned for the Canadian consuls to the United States who were all in Ottawa, which unfortunately had to be cancelled because of other engagements they had; and our meeting last week.

I have been anxious to have an organization meeting of the committee so that we could discuss where we are going and how we should go about it. I apologize to you for the delay in getting ahead with this, but in the last two or three weeks, as some of you are aware, both Senator Grosart and myself have been involved in the group that returned the visit of the European parliamentarians to Canada; and our visit to Strasbourg which I reported on yesterday in the Senate Chamber.

Subject to your agreement, I thought that next Thursday we might devote the first hour and a half to questions of organization and the future planning of this study, and have the witness come at 10.30, if that is agreeable to you. I would like to try to have a meeting of the Steering Committee on Thursday or possibly on Wednesday of next week.

Senator Macnaughton: Mr. Chairman, if I may interrupt you, I would suspect that there will be an early meeting of our Banking, Trade and Commerce committee next Thursday, studying the income tax resolutions, if we get them in time. They are meeting certainly on the 4th, which is Wednesday, and probably on the 5th of December.

The Chairman: That is a problem we have. I made arrangements yesterday to come down a day earlier next week and I will be here all day Tuesday. But perhaps it is inconvenient to others if we move the meeting forward to Tuesday. I do not think there is any way in which we can escape conflicts between committees. Banking, Trade and Commerce sits on Wednesdays and we are purposely avoiding that morning because of Banking, Trade and Commerce and the caucuses. If we do not sit on Wednesday, and we do not choose to sit on Wednesday night, we are left with Thursday morning, for which there is a lot of competition.

Senator Macnaughton: I thought that if we are talking about organization we may not have many people here. Perhaps you could talk about it at 11 instead of at 9 a.m.

The Chairman: Let me think about it. We might take the witness at 9 and organization at 11 a.m.

Senator McNamara: Do you know if the Senate is going to sit on Tuesday afternoon? If the Senate is sitting on Tuesday afternoon, those from out of town will be in on Tuesday morning.

The Chairman: The Senate does sit occasionally but not regularly on Tuesday afternoon.

Senator McNamara: I thought that with the income tax matters coming up, it might do so.

The Chairman: At least for next week, I would rather not arrange a meeting for Tuesday, as I should like to have some time to do some thinking myself, then have a meeting with the Steering Committee, and have something for you on organization when we do meet. Certainly, we can consider doing so later on Thursday morning rather than earlier.

Now, not to keep our guest waiting any longer, I do not think that any of you need me to repeat the record of public service of the witness who has been kind enough to come before us this morning.

Mr. Bryce, as you all know, has been, among other things, Clerk of the Privy Council, Secretary to the Cabinet, Deputy Minister of Finance, Economic Advisor to the Prime Minister on the Constitution and, most recently, in Washington as Executive Director of the International Monetary Fund. He is now back in Ottawa for new duties, which I am not sure are either public or fully established as yet. I understand, however, that he is not retiring.

We would like to thank you very much, Mr. Bryce, for coming this morning. I might just inform the members of the committee that Mr. Bryce was concerned that, having been away in Washington for this past number of years, his memory might not be as effective in recalling details as he would wish. We were quick to advise him that we are not really looking for specifically detailed examples, although examples are always helpful, as much as simply conceptual observations in all areas in which he has expertise relative to the mechanisms used in government in our contacts with the United States.

The other point I would like to mention is that the arrangement with Mr. Bryce is that this meeting will be *in camera* and he will be entitled to review the record and edit it before it is published. On that basis, I ask Mr. Bryce to proceed now with an opening statement. Mr. Bryce, Senator Carter will lead off the questioning after you have concluded your statement.

Mr. Robert Bryce: Thank you, Mr. Chairman.

Honourable senators, I appreciate the invitation to appear before you this morning. I accepted it, as the chairman has indicated, with a certain amount of hesitation

because, while I have observed the functioning of Ottawa in regard to relations with the United States at close range for years and in a variety of fields, I have been away from it now for nearly five years, working first on the Constitution, which was a separate matter not in the normal sweep of events, and, secondly, in Washington with the IMF. It is true that in the latter situation I had numerous contacts with the Ambassador and the economic Ministers in the Embassy. I did not myself observe these matters sufficiently closely to form an independent judgment, so I ask your indulgence for the fact that my remarks may not be up-to-date and I may have more difficulty in citing instances than I would wish.

Mr. Peter Dobell has informed me of some of the areas in which he believed the committee would be interested. They include the question of the co-ordination of Canadian policies vis-à-vis the United States, the implications of direct bilateral dealing between functional departments in Ottawa and Washington, the role of the provinces, and the form and nature of direct ministerial contacts. I will therefore make a few comments on those subjects and leave it to the questioning to follow up.

Firstly, on the question of co-ordination: I am one of those who feel that co-ordination is very necessary and that it has become increasingly necessary. I remember that we were always very much impressed over the years with the very good co-ordination the British had in their dealings with other countries. The British teams that were dealing with us at international meetings and events of that nature always displayed considerable skill in knowing their own line. I always wished that we could achieve the same degree of co-ordination ourselves. We are endeavouring to do it, especially in the really important fields.

In the case of the United States, in many fields we were sufficiently close with them and familiar with the issues that we felt it was more possible to play it by ear than was the case with countries we did not know so well.

However, it is certainly my impression that the United States has been consciously trying to deal with us more and more at arm's length and not on an "old boy net". I do not want to be too specific, but I think this attitude has grown through the sixties and, decidedly, in the seventies. They are endeavouring to co-ordinate their policy more and I know from speaking with them that they have great difficulty in having the Department of State, the Treasury, the Department of Agriculture, the Department of Commerce and others to see eye to eye.

I recall that in the field in which I have been working we used to chide the Americans for bringing so many people along to some of our international meetings. Representatives of other countries said that they represented half a dozen countries or more and wondered why the Americans should need to have so many representatives present. The reply was that these represented half a dozen department and it was more difficult for those departments to get together than for the countries represented by the others to get together. In my opinion, a bigger and clumsier machine exists in Washington than in Ottawa. So they have had some of this same difficulty in coordinating.

However, they have so much larger a State Department than ours that they are able to have experts within the department, who know the technical and specialized sides of many fields, in which Canada has to depend on the functional departments. This makes it more difficult for us to rely as fully on the normal External Affairs and

diplomatic channels than it does for them. However, it also makes it more necessary to achieve coordination in many cases, because the State Department is itself anxious to be the channel in the United States. While that is not the case in a few specialized international agencies, such as those in which I have worked, in a great range of Canadian issues they were the channel.

Mr. Chairman, perhaps I might also say that the problem of co-ordination is not solely one vis-à-vis the Department of External Affairs. Various other departments are interested in matters which may be affected by the activities of other functional departments. Issues may appear simpler to particular departments, particularly one which engages in types of action in fields with which it is not familiar. The issue may be on grounds that have been settled in another functional field and the principle on which it is settled by one department may prejudice the principles on which other departments have to settle their affairs. So it is not wholly a question of the central Department of External Affairs and its relations with other departments, but among departments where perhaps the expertise and experience of one department can be of real assistance to another.

On the focus of the coordination, I can see no alternative except using the Department of External Affairs, subject, of course, to the policy of the government as whole, and frequently government policy needs to be settled when significant matters come up. Since frequently views will differ between departments, indeed between parts of departments, on occasion, you have a long process of reaching or trying to reach agreed views among officials and ultimately among ministers.

In the 1940s, 1950s, and early 1960s, we made great use of interdepartmental committees for this purpose. In the 1960s, and particularly now, in the 1970s, there has been an increasing use of ministerial, Cabinet committees.

I cannot speak for the last several years, but certainly it was quite evident through the 1960s, until I left the Department of Finance in 1970 that ministers did not want officials to try to settle these things so largely among themselves. They wanted to get in while there were still differences of views and they did not want those differences covered up by some compromise made among officials. This is quite an important development.

Earlier it was always felt that we should spare ministers unnecessary argument and controversy, at least by highlighting the issues and seeing how far officials could agree among themselves.

I have observed in the past dozen or 15 years a shift from trying to settle matters in this field, as in other fields, by simply a discussion among experts, among people with different functional responsibilities. Now there is a very active and highly organized process of settling it among ministers, with the officials and experts present. This takes a great deal of ministerial time. That is one of the main limitation on what can be done.

This is what I planned to say about coordination. I may need to come back to it.

On the question of direct dealing between Ottawa and Washington on in functional departments, I think this is inevitable and desirable. It has been going on for a long time. I can recall, in my relatively early days in the Public Service, being surprised to find that the Department of Fisheries conducted a considerable amount of diplomacy and that there were experts there on international affairs.

Of course, had I studied the question adequately, I would have realized that our Fisheries, from the early days of Canada, had been involved quite substantially in questions vis-à-vis the United States and, indeed before that, vis-à-vis the European countries. I can remember that men like the assistant deputy minister of fisheries on the legal side who were very experienced in carrying on international negotiations in the fisheries field. So was my friend, the late Stewart Bates, who for many years dealt successfully with the Americans, Japanese, Europeans and others on serious problems requiring difficult negotiations.

In such cases you are in a rather specialized field which does not normally involve the same problems as do others, coordination was necessary with External Affairs and also knowledge of the long history of international relationships, and in the creation of new international agencies. That is just one example of the length of time and the degree of specialization involved in this matter of functional relationships.

I should now mention the field of trade, where our trade policy, before I joined the Public Service in the late thirties, had largely been a matter of deciding Canada's own tariffs until the middle thirties. It was very closely conducted by the Prime Minister with a few very trusted officials. I think it was often very difficult for ministers to know what was going to happen. I understand that Mr. King, in particular, used to think it was dangerous to tell ministers what he had in mind about a tariff, because it was highly divisive as well as, of course, very valuable information in terms of markets and such.

However, after getting into the business of negotiating trade agreements with the United States in the thirties, and then multilateral trade agreements at the end of the war and right through the 1950s and 1960s, we developed a highly structured arrangement for conducting negotiations with teams of basically three or four departments, including the Department of External Affairs, the Department of Trade and Commerce, which was primarily concerned with concessions that we were looking for from other countries; the Department of Finance, which, in its responsibility for advising the government in regard to tariffs, was concerned with concessions that we would give to others in our markets; the Department of Agriculture, and the Wheat Board, having special concern for agriculture and grain matters.

This was the structure which was put in place in the 1940s and has carried on until the present day. The subject is still not without difficulty, as is perfectly evident. In particular, our relations with the United States inevitably involve a whole lot of problems concerning bilateral trade in agricultural products.

In some fields you get into very specialized work in trying to develop this. I can well remember when we endeavoured to get into the rationalization of dumping duty situation among the main countries. It involved developing a great degree of expertise in the Department of Finance. Your committee probably knows Mr. Rodney Grey who was instrumental in pioneering and getting through the parliamentary committees, as well the United States and others in GATT, a very highly technical reform in the application of dumping duties. It would not be possible to carry out that sort of negotiation through the normal diplomatic officers, because it takes years to develop the degree of expertise necessary to handle the negotiations.

I can speak in terms of more direct experience dealing with the Treasury Department of the United States on balance of payments matters and exchange matters. We have had a long history in this field since World War II, when we got involved in financial arrangements between Canada and the United States relating to the United States lend-lease program. Early in the war we decided that we did not want to get lend-lease assistance from the United States. We were providing the equivalent in what we called mutual aid to other allied governments engaged in the war and we had to mesh our two programs. That meshing of the programs involved a good deal of negotiation, some of which Mr. King himself undertook in meetings with President Roosevelt. In the negotiations he was assisted by Clifford Clark who, in turn, had Plumptre and Coyne working on it in Washington from time to time. During that period we negotiated such programs as CANSHIP and CANPAY, which enabled us to avoid receiving gifts from the United States while enabling us to get the components and materials required to fabricate into finished goods to be shipped overseas.

From that time on we have had various dealings with the American government balance of payments matters. These negotiations are normally carried on between the officials of the respective treasury departments and the central banks and, on numerous occasions, with the assistance of the Canadian Ambassador to the United States, the Governor of the Bank of Canada, the Deputy Minister of Finance or the Assistant Deputy Minister of Finance, all of whom visited Washington at one time or another for such negotiations. Such negotiations took place in late 1947 when we were faced with an exchange crisis, and again in the early 1960s, and in 1968. Indeed, such negotiations took place almost each year from 1963 to 1970 as a result of the various measures the American government took in its efforts to improve their balance of payments. We managed to persuade them during those negotiations that special arrangements were necessary in respect of Canada because of the very close financial ties between the two countries and the inter-relationship of our quite free capital market with their huge capital market.

I think it is fair to say that the bilateral dealings that were necessary in that regard were very effective. They were, at times, difficult. I can well remember one night sitting with Mr. Sharp, the then Minister of Finance, either in his office or mine, while a group of senior Canadian officials were discussing these matters with the Secretary of the Treasury and his officials in Washington. We had an open telephone line to the office of the Secretary of the Treasury and these discussions went on until early in the morning, because of the exchange crisis with which we were confronted. Mr. Fowler, the then Secretary of the Treasury, was very anxious to help us as long as it did not get him in trouble with his own market or in relation to other countries. I think it is fair to say that Mr. Fowler was very understanding of the Canadian position.

It took some years before we got the United States Treasury Department to understand why it was not possible for them to improve their situation to any great degree at the expense of Canada. They were looking primarily not at their trade but at capital movements, and we had to explain to them repeatedly that the flow of capital to Canada was essential as a means of financing the trade deficit we were running with the United States. It was absolutely vital to us that we achieve a meeting of minds in this regard with the American financial people, both in

the Treasury Department and in the Federal Reserve, and we managed to do so.

We had numerous disturbances in our market commencing on the day the Americans initiated the interest equalization tax. If I remember correctly, they sent someone to Ottawa to tell us what they were doing either an hour or two before or after it was announced. As a result of that announcement, we had enormous disturbances in our market as soon as this tax plan was made public. Everyone recognized that we either had to have a readjustment in our interest rates in Canada so as to make it worthwhile to borrow in the United States, bearing in mind this interest equalization tax, or we would be in dire straits in the exchange market. In that instance, with the help of Mr. Ritchie from External Affairs and Canada's Ambassador to the United States, as well as the despatch of the Governor of the Bank of Canada and other officials to Washington, we arrived at a solution in a remarkably short time. The agreement arrived at saved Canada hundreds of millions of dollars in exchange reserves.

I cite these instances as an example of the way in which a close understanding between the functional departments can be very valuable. In the cases cited, we always kept the Department of External Affairs and the embassy in Washington informed of what we were doing. Indeed, on many occasions, we had to have the help of those officials in explaining what was going on, not only to the Treasury Department in Washington but also to the other departments that had a collateral interest in the matters under discussion.

I was also involved for a time in some of the bilateral consultations in relation to the defence field in the 1950s and early 1960s. Again, there was a very substantial problem at our end in getting agreement between the Department of External Affairs and the Department of National Defence, and the respective ministers, and, occasionally, with Treasury Board. As Secretary of the Cabinet, I was often called upon to referee such disputes. However, we did manage to work things out. I think it is fair to say that it would not have been possible, either technically or diplomatically, to do so without the quite substantial contact the Canadian Forces had with the military in the United States. The military in the United States, as honourable senators are aware, has its own powers and views and its own channels to the President.

One of the areas where there was least involvement of the External Affairs department until recent years was in the negotiation of tax treaties. This was such an arcane business that in order to know what was going on you had to know both the Canadian tax system and the tax systems of other countries. I found from my own experience in London, in endeavouring to negotiate with the Board of Inland Revenue there, that it was a very skilled operation. At the end of the first day I realized that I was in danger of being "taken into camp" by the nice, friendly casual atmosphere. I had to hold back and ascertain a good deal more. This, I think, was the extreme example of negotiations that really had to be carried out by experts in a field where it was very difficult for anyone outside that field, even the Deputy Minister of Finance, to be fully aware of what the issues were.

Nowadays we have a much better integrated program of negotiating these tax treaties. I know that before I left the Department of Finance we set this in train in the tax reform operation. I understand that now External Affairs

has learned enough about the business that they can take part in it as well, because these tax treaties now have considerable implications for our relations with developing countries as well as with others.

Mr. Chairman, I feel this direct bilateral dealing is essential, but it does require some effort both on the part of the functional departments and of External Affairs to keep one another informed as to what is going on, and what precautions have to be observed, as well as what general policies have to be taken into account as time goes on.

One of the questions put to me by Mr. Dobell was what this does to the traditional channels. It certainly makes life more difficult for the embassies on both sides and for the External Affairs Department, because there is so much that they have to keep track of. I guess that in the case of Canada and the United States one of the special difficulties is that there is an excellent telephone service between the two. One is tempted to deal with so much by telephone that does not produce a written record and it is often troublesome to send out notes of what you have said on the telephone, so even within departments it is difficult to make sure that the senior officers of the department are fully aware of what the various assistants have been doing.

Senator Laird: You could always tape it!

Mr. Bryce: Yes. Part of the problem in dealing with External Affairs, is that it is such a big and complex department now that it is hard for its various parts to co-ordinate internally, and this gives rise to delays and difficulties in getting answers from them when you want to know whether there is going to be any problem if you take up this or that with Washington. I found it a little easier to deal with the embassy down in Washington because it has there a lot of the knowledge and a much smaller organization and do not have to consult among one another so much. The Department is a cumbersome big machine and they are conscientious about involving those of their own functional divisions, as well as the divisions that deal with the United States itself.

Perhaps I should mention the role of the provinces in regard to relations with the United States. I think that this has not been as difficult in the case of the United States as it has been in the case of some other countries. In part, this may be because Washington is separate from New York.

While traditionally the provinces have had offices in London for many decades, in Paris more recently, and in some of the other capitals where they are endeavouring to promote trade, tourism and investment, this purpose in the United States is served by offices in New York and some of the other important cities. To my knowledge, none of the provinces has full time officers or offices in Washington.

However, it is not far to Washington, and they come down there, or telephone down there and send people down there. I think the problem has been much more one as to how far the embassy in Washington can assist and keep track of visiting provincial ministers or officials. This requires a good deal of tact on the part of the embassy and a sense of federal responsibilities on the part of the provincial men concerned.

There has been an effort to improve the furnishing of information to the provinces from the embassy in Washington, in the hope that this sort of "early warning" will enable consultation to take place with the province, to get their views on matters before it is too late to do anything

as a result of getting their views. But, of course, one of the problems we have in dealing with the provinces is to be clear that the Government of Canada is responsible to the people of the province just as much as the government of the province is. The provinces sometimes seem to feel that it is primarily up to them to express the interest of the people of their province and of the businesses in their province, in regard to matters that are really under federal jurisdiction—such as, let us say, trade. Parliament and the ministers are really responsible directly to the people. This applies to our internal matters as well as to foreign matters. I think it is important that we defend the responsibility, the direct responsibility of the Government of Canada for the things that it does in trade and in other fields where obviously the provincial governments feel concerned because the interests of their provinces are significantly affected.

When we are dealing with the United States or other countries on matters that the provincial governments themselves have to act upon, matters of provincial jurisdiction, it is much more difficult. Then we have the problem of co-ordinating not only within the government of Canada but somehow giving the provinces reasons to believe that they are being consulted, that their views are being taken into account, and that the bargaining that is done by the representatives of the government of Canada is being done in the interests of Canada but with a knowledge of provincial policies and views. I do not think there is any easy answer on this. It requires work; it requires a great deal of patience. Occasionally, I suppose, it may require taking a different view from what a particular provincial government itself will take, even in fields where the provinces have authority.

I think, from what I have observed in Washington in the last few years, there are occasional more or less public incidents of provincial representations, but those are not normally where provincial representatives have been endeavouring to deal with the State Department or the President, so much as endeavouring to influence public opinion or congressional opinion on issues. Of course that is all quite normal in Washington, even though it often gives rise to controversy. However, it is not really a matter of diplomacy as much as of public relations.

Mr. Chairman, the other points I might leave for questions. If members of the committee are interested in the functioning of the International Monetary Fund, I would be glad to speak of that also. In that area we do, of course, have some problems in our relations with the United States, concerning Canada-United States matters and on more general international matters. Thank you.

The Chairman: Thank you very much, Mr. Bryce. Your remarks have certainly given me, at least, an insight into the depth of the problem we are studying. They also indicate the care which we must exercise in preparing our reports, if they are to be helpful rather than simply superficial.

I might digress for a moment in connection with one point you mentioned, and that is the United States Interest Equalization Tax Act. I remember rather vividly that occasion and the speed with which the Canadian government was able to have Canada exempted by President Johnson by means of a presidential decree. However, I do not know if you are familiar with the fact that as practising lawyers we had opinions from our confrères in the United States to the effect that the President did not have the power to do that. As a result, I have drawn a great many indemnifica-

tion agreements in connection with large loans in Canada, in order that if the President's act were challenged the tax would still be payable by the borrower. However, it was never challenged and the President's writ ran and continued to run until recently. The Act is no longer in existence as of a few months ago.

Senator Carter: Mr. Chairman, Mr. Bryce has outlined the machinery available to the Canadian government in its dealings with the government of the United States, namely the Department of External Affairs, plus the embassy in Washington, which is the traditional channel. He then mentioned a procedure now being more frequently used on a one-to-one basis at the ministerial level and at the departmental level between senior officials. I was not quite clear from Mr. Bryce's remarks as to whether he considers it is still possible, in view of the multiplicity of issues which arise and their complexity, for the Department of External Affairs to handle all these issues.

Mr. Bryce: No, sir, I think not alone. They need the help of the other departments, which in turn need the help of the Department of External Affairs. Somehow that must be achieved and their views must be reconciled in order that the departments are able to work together.

Now, it depends on the degree of particularity and the degree to which matters are potentially controversial, or whether it is simply a matter of implementing a reasonably well-established policy and following up a clearly established relationship between departments on both sides.

Senator Carter: What machinery exists for sorting out matters which can be dealt with on the ministerial, one-to-one basis and those matters which must be dealt with by the Department of External Affairs? Does such machinery exist?

Mr. Bryce: You are speaking, I take it, of ministers going to see their opposite numbers in Washington?

Senator Carter: Yes.

Mr. Bryce: Or are you speaking of the departmental officials?

Senator Carter: I am speaking of both, really, in order to determine how it is decided which matters must be channelled through the Department of External Affairs and which might be dealt with more appropriately by ministers or departmental officials.

Mr. Bryce: The determination of those matters which should be taken up with External Affairs is a difficult question of judgment which is only learned, in my opinion, by a study of particular cases and the achievement of some feel for the situations. The difficulty is that particular departments may not know what is significant in affecting other activities or may be contrary to decisions which may have been reached a year or two previously as to how the government will deal with certain types of matters in another field which is parallel to it.

How is the threshold determined at which consultation must be set in motion? It is pretty clear that anything that must go to the cabinet or, indeed, to one of the cabinet committees, requires automatically consultation with the Department of External Affairs, because the minister will attend the cabinet or the cabinet committee if it is one concerned with matters of an External Affairs nature. It is therefore not difficult in those cases to know that there

must be an attempt to arrive at some agreement with the Department of External Affairs, if possible in advance or, otherwise, at the cabinet level.

The real difficulty is encountered when dealing with matters in which the department has the authority to make the decision and there is no need to go to cabinet for authority. Which incidents must be taken up with External Affairs depend on the judgment as to how important they are in affecting our general relations with the United States or how far they might affect government policies, which may be prejudiced one way or another by the manner in which matters are settled within a particular field.

Senator Deschatelets: I understood that there was at least an unwritten cabinet rule that issues involving government policy must first be agreed by cabinet. There must be a consensus by cabinet. As far as I can remember, I do not believe it was possible, at least in my time, that a minister, on a certain issue, had the authority to deal with another government unless the matter had been examined and agreed by cabinet. Is that not so?

Mr. Bryce: The problem really is that the cabinet may have decided on certain general policies in regard to, let us say, our exports to the United States, how they will be promoted and the impediments they may encounter. Let us suppose there is a question of the possible application of United States dumping duty, or countervailing duty on some of our exports to that country. How is this handled by the Department of Industry, Trade and Commerce, the Department of Agriculture or other departments concerned? It is a question of carrying through the general policy which has been decided upon by the Government.

Senator Deschatelets: Are you referring to the application of a certain policy?

Mr. Bryce: Yes, it is the application of the policy and how far it is intended to object or endeavour to persuade the Americans in one way or another. The question is how far the Department of External Affairs needs to be officially aware that a potential dispute or, perhaps, an actual dispute exists and of the manner in which it is proposed to present or carry on the Canadian case. Perhaps, indeed, it may be a matter of influencing one of the congressional committees involved in the situation in addition, let us say, to the Department of Commerce or the Treasury Department in carrying out their duties. I think it is that sort of thing rather than new policy.

Senator Deschatelets: It is not possible to have an agreement on all these matters and the application by cabinet?

Mr. Bryce: No.

Senator Carter: In the one-to-one, person-to-person dealings at the ministerial level, or department-to-department, is there not a danger that a department, thinking in terms of its own particular interests, might still be working within government policy but, in trying to achieve its own departmental goal, may harm public relations between two countries, and might also be making difficulties for other departments?

Mr. Bryce: I think that is right, sir, as regards the relationship between departments and ministers. When, let us say, the Minister of Finance goes to see the Secretary of the Treasury, usually it is on matters of some importance where there has been some discussion with External

Affairs. The conduct of the meeting is in the hands of the two principals. Frequently the ambassador will be along, so that he is aware of it. If he is not present, an effort is made to—I guess the technical term is “debrief”—the minister, in order to find out, and make a record of, what transpired. Often, if the ambassador is not present at least one of the minister's officials is present to make notes.

I feel myself that these one-to-one contacts between ministers and the American secretaries are fruitful, but I think it is evident that what we gain from them depends on the personalities involved. Some ministers will work very hard and make a great effort to study their opposite number and to handle the matter with tact, strength and persuasion.

In today's world we have to try that, because it is the fashion among all sorts of countries now that there is direct contact between people like ministers of finance, ministers of trade, ministers concerned with food, and so on. We have to recognize that this has come to be an accepted way of doing business. It downgrades a little the role of ambassadors, I suppose, and perhaps the role of external affairs departments, but nevertheless it is very common among other countries, as well as between Canada and the United States.

In some sense, I mentioned earlier, there is a special danger here in that it is so easy to pick up the telephone and follow up a meeting. It is very hard to be sure that there are enough records and knowledge among the others involved, that they are aware of where things stand. That is a question of the relationship between the minister and his own senior officials. It depends on the individual case.

I myself feel that these one-to-one meetings are more fruitful than meetings of ministerial committees on the two sides, because these are much larger and more highly structured, where you are more apt to get each side making speeches to the other, and where it takes a lot of time on the part of some ministers listening to others discuss things that are of chief interest to them not to the listener. So it seems to me that we really should accept the one-to-one contacts of ministers on both sides and make the most of them. The important thing is that one realizes that it is a very serious business when this is done and ministers have to be properly briefed, not only about the subject but about the man they are meeting.

Senator Carter: Still following this person-to-person ministerial contact, is the fact that Canadian ministers are elected and American secretaries are not a factor in these discussions? Does it influence them very much? I am thinking of the problem of agriculture, where the Americans have now retaliated more pointedly in placing an embargo, and last night, over the radio, were threatening to cut off our oil through the eastern states and to break off the automotive trade pact. Our relations certainly are not improving. We have two different approaches. Is that a factor that makes it difficult to appreciate each other's point of view?

Mr. Bryce: The fact that our ministers are elected and their secretaries are appointed is not a major influence. The fact is that the American secretaries are inevitably very much involved in politics. The ratio of politics to administration in Washington, it seems to me, is much higher than it is in Ottawa, inevitably because of the nature of their congressional committees and of their whole system, with its division of power.

I think that is not a handicap or a very special problem. The important thing is that they both feel a sense of responsibility for forming and defending their policy and carrying it through. I think the threat that you refer to, that was mentioned on the radio, emanated from the Congress rather than from the American administration.

Senator Carter: You mentioned ministerial committees. They do not seem to be in use very much. The Committee on Trade and Economic Affairs has not met for four years, since 1970. Is there any special reason for that?

Mr. Bryce: I would hesitate to answer that, because the last three years when it might have met were the years when I was away. I think that really what has happened is that the one-to-one meetings have become more common, and have been sufficiently utilized, that ministers have preferred to do it that way rather than in groups.

The meeting of ministerial committees on the two sides tends I think to give rise, as I indicated earlier, to more declarations of opinion and positions in front of one another than it does to reconciliation of differences.

My own view is that it is easier for the minister on each side to explain their real difficulties to one another and provide a background against which it may be possible to move forward. When you get involved in ministerial committees you are normally surrounded by 20 or 30 officials, and because of the size of the meeting it is not always easy for people to make changes in their positions.

Senator Carter: I do have other questions, Mr. Chairman, which I should like to ask a little later.

The Chairman: Senator Laird.

Senator Laird: Mr. Bryce, the question I wish to ask may open a can of worms. However, since this meeting is *in camera*, I hope you will feel free to make some observations on what I am about to pose to you. You told us briefly about the settlement of the problem which arose with the advent of the interest equalization tax. That measure, obviously, was brought about expeditiously and in a manner which was less formal than perhaps might normally have been the case. Assuming that we still need a flow of U.S. capital into Canada—and this is the very reason why we had to settle the problem of the interest equalization tax—and in view of the fact that some public figures in this country have said things which are unfriendly to the United States, do you feel that the existing machinery could operate in the same fashion as has been the case in the past, or do you feel we would find more resistance from the Americans?

Mr. Bryce: That is a good question, senator. Obviously, this is a delicate matter. The Americans, of course, are well aware of the views in Canada in relation to foreign investment. They receive reams of material on that subject, and the present administration in particular, being close to business, feels it has a real interest and duty to see that American business interests are adequately represented and fostered.

The American government gave us prompt service in relation to a good many of these balance-of-payments problems in the 1960s because they felt it was in their interest, as well as being in our interest, to avoid an exchange crisis. The international exchange market was under increasing pressure through the 1960s and the Americans did not want to provoke speculative capital flows based on the possibility of devaluations of currencies.

When the interest equalization tax issue arose in 1963, they were alarmed lest we might be forced into devaluation. As you may well remember, this came only a year after Canada had gone through a serious exchange crisis in the course of which it devalued the dollar. We succeeded in getting over that crisis and in getting a new par value for our dollar in 1962. The value at that time in relation to the U.S. dollar was, I believe, 92.5 cents, or something of that order, and we were just beginning to come out of that crisis on to pretty solid ground in the market. So, it was not just a case of friendliness on their part. They were concerned about the monetary situation in general, as well as endeavouring to correct their own balance-of-payments problem in order to restore faith in the U.S. dollar.

This was perhaps even more evident on the more recent occasion on which we had problems of that sort in relation to the United States, which was in 1968. You may well remember that there was a series of runs on the Canadian dollar from January through mid-March, 1968. At that time the Americans were suffering a great hemorrhage of their gold reserves into the private gold market and were most anxious not to worsen that situation. Indeed, the final resolution of our exchange problems, as well as the problems of the U.S., ultimately took the form of the decision to establish the two-tier market for gold, the private market being at a different price level from the monetary market. That having been done, as well as the action the Americans took when they ceased to convert their currency into gold in August 1971, they were in a much stronger position. It no longer mattered so much to them when the currencies of other countries got into difficulty. It gave them a greater degree of independence.

Senator Laird: Could it be simplified by saying that there does not exist the same degree of goodwill towards us as existed before these unfriendly public utterances being made by various Canadians?

Mr. Bryce: I find it difficult to identify the mood of the Americans in that regard, senator. Certainly, the measures they took in the past related to the development of their own situation. I think it is probably fair to say that in the last three or four years, as the Americans recognized the increasing economic strength of Germany and the rest of Europe on the one hand, and Japan on the other, and the recurrent weakness of the U.S. dollar up until late last year, in the exchange market, it resulted in the U.S. feeling that it could no longer afford to be as friendly in helping other countries as had been the case previously and a feeling that they would have to promote their own interests in a more aggressive fashion than had been the case previously, not only vis-à-vis Canada, but vis-à-vis other countries. Through 1971 and 1972 the U.S. felt it necessary to promote its own interests aggressively vis-à-vis Canada because it saw Canada as one of the sources of its large balance of payments deficits. In that connection, the U.S. looked at the rather extraordinary year of 1970 when we did have quite a substantial surplus in our balance of payments, a fair amount of which was with the United States.

In the last year or so we have returned to having deficits, especially deficits vis-à-vis the United States, the result of which is that the United States no longer feels, so strong by that Canada is a drain upon it. Nevertheless, I think it came to the conclusion under President Nixon, as probably would have been the case under any other president, that it had to defend its own economic interests to a much greater degree than was the case previously. The argument over

foreign investment here in Canada, naturally, had some reflection in Washington. To what degree that is affecting our relationship, it is difficult to say.

Senator Laird: One further question along the same line, and this involves the matter of negotiations which, I presume, are more or less continuous, with regard to the tax convention between Canada and the United States. In that connection you mentioned the necessity of expertise on the part of those who take part in these negotiations. I am told that *article 8* of that convention provides that gains made on the exchange of capital by the resident of one state in another state are not taxable in the latter state, and I am told that that was originally intended to cover the situation of a Canadian trading on the New York Stock Exchange and that the Americans let it slip through without realizing it had wider implications. Were you in on any of these negotiations at all yourself?

Mr. Bryce: I made one visit to the United States when I was Deputy Minister of Finance—or shortly after, when I was still working on tax reform—to have some discussions with the top tax policy man in the Treasury Department. This was when we were formulating our policies, not when we were starting to work on the tax agreement. However, it was perfectly evident that we were going to have difficulties on a number of points and we were feeling things out.

In recent years I have lost track of what is going on. I know there were some negotiations with the United States and many with other countries as well, but I have been out of that.

Senator Laird: Is it fair to ask you whether or not the existing machinery for conducting negotiations on our part is more or less efficient than it used to be?

Mr. Bryce: Much more. I certainly hope so, because I tried to get the improvement started.

Senator Laird: Yes, and I presume what you stressed was the necessity of expertise being present on the tax situation in Canada.

Mr. Bryce: That is right.

The Chairman: As a supplementary to that, I suppose with the increasing complexity of the problem between the two countries, you have to improve to stand still.

Senator Macnaughton: I think we should protect our speaker. He made quite an admission, he said it was much more effective after he had gone. Surely, he did not mean that? But he did say that he did start the process. What you mean is that we have got much more experience as a result of the process you started?

Mr. Bryce: Yes, sir. I must confess that when I went to London in 1966, on the question of revising our tax agreement with the British, I realized that we were not as well prepared as we should have been for that important negotiation. We were not proposing any radical alterations, but there were some changes that were necessary from the British side as well as from our own. But later it was quite evident, as we worked ahead on our tax reform proposals, that they were going to be involved in quite difficult negotiations, not only with the United States but also with quite a number of other countries because, basically, the tax treaties have evolved under the leadership and bargaining strength of the United States and the United Kingdom, and they are big creditor countries and, on the whole,

they tend to favour the creditor countries in the general structure.

Canada is one of the biggest debtor countries in the world, and we felt we had to have the debtor countries in a stronger position than had been traditional. Secondly, we have some special problems ourselves in regard to foreign investments and the nature of the relationship of Canadian foreign investments abroad to the Canadian tax system, which we were seeking to amend. Moreover Canada wanted to help the less developed countries. Such countries usually wished to attract foreign investment, and often offered tax inducements in order to get it. This posed quite a problem as to the nature of the tax treaties between Canada and such countries. We had to try to temper our original tax reform proposals in such a way that we would interfere as little as possible with investment in the developing world, while still trying to get a rightful share of revenue for Canada.

Senator Macnaughton: I wish you were still back here. We shall need your help on many occasions in the future. I know that you have covered this, generally speaking, but getting back to the Department of External Affairs, which is so important in many respects, one has to realize that fishery questions obviously have to be dealt with by experts on fisheries. And, shall we say, with trade and commerce it is the same thing. Environment is a new department and, obviously, they have to set up their own experts. Then, there is agriculture, and science, even finance. How is it possible for our External Affairs Department to be expert in all these things? In other words, it is not that the role of External Affairs, which used to be all-encompassing 20 or 30 years ago, is gradually deteriorating? How would you attempt to answer a question like that?

Mr. Bryce: Gradually deteriorating? I would not like to think that it was, and I do not see evidence that it is. As we all know, the under-secretary, a very able under-secretary, recently had a breakdown from overwork. There is a very heavy burden on the top people in External Affairs. They have to keep that huge machine working and take many decisions. They must now keep in touch with things like the environment, and science. They have set up additional divisions in their own department to try to keep abreast of what is going on in these matters.

The difficulty is that they then have to reconcile those special considerations, within their own department, with the views of the officers of the divisions which deal with the more traditional concerns. So they get disputes, differences of view as you can imagine, just like you get disputes between departments. Then someone up above has to reach a decision and resolve a dispute, and that increases the burden on their senior officers. I think there is no doubt that the growth in the concerns of government has increased quite seriously the problem that confronts the senior officers of External Affairs.

Senator Macnaughton: Could you put it this way: Do you not think that their role is fundamentally changing, too? Of course they have to represent us at the diplomatic level, but taking the trade level alone, they have to represent us and they have to be semi-experts at the same time.

Mr. Bryce: The Department of Industry, Trade and Commerce has its officers stationed abroad in our embassies who work closely with the External Affairs officers. I know, from experience in Washington, that there was a very close contact between the economic specialists from

External Affairs there, and the Trade and Commerce officers who work in adjoining offices and share the same information.

So this is one of the principal ways in which one gets specialized trade knowledge yoked in close harness with the more general views of External Affairs. There is no way that you can avoid having to do a lot of hard work if you are going to co-ordinate.

Senator Macnaughton: I suppose one cannot be more dogmatic than that. Could I direct your attention to an organization—and I think it comes in really under this—the Canada-United States Interparliamentary Group, set up about 13 years ago and which, certainly at the beginning, had very great success. Like most organizations, it has had its ups and downs. External Affairs are very nice in receiving us and looking after us socially, but they keep their hands off, I suppose quite properly, because, after all, this is a parliamentary rather than a departmental delegation.

Have you any suggestions as to how this organization could be made more effective, or do you think there is any real value in it? There is always value in meeting your opposite number in another country, but could we go further than that and make the organization of use and interest to the Department of External Affairs and other departments? On the other hand, should we just maintain it at a straight political level?

First of all, have you heard of the organization?

Mr. Bryce: Oh, yes, sir. I have met some of the delegations in Washington and have had conversations with individual members. I hesitate to suggest how it could be made more effective, because I am not sufficiently familiar with the problems and procedures. However, I do believe it is important to maintain contacts at the congressional level, because Congress is so terribly important in determining American policy. Anything that opens doors into the Congress and promotes a better understanding on the part of senators and representatives of the Canadian position is, in my opinion, to be welcomed. It strikes me, in principle, that if our parliamentarians can visit there and carry on discussions, finding shared interests and fellow feeling with members of Congress, it is all to the good. I would be reasonably patient as to the achievement of prompt results. This type of process must be allowed to build up. Therefore, in my opinion there is a real task to be performed, but I cannot claim to know how it should be done.

Senator Macnaughton: I certainly will not disagree with you, sir. In my opinion, it is very valuable. Am I right in saying that the American temperament, referring especially to members of Congress, the House of Representatives and the Senate, leads them to value personal contact? They have considerable authority in their own persons, even much more so than, shall I say, our own backbenchers have here. They are people of great importance in their own system and, to emphasize your point, the more contacts we have with people in their system, the better for us. Does that make sense?

Mr. Bryce: I would say so.

Senator Macnaughton: You offered at the outset to speak of the International Monetary Fund. I cannot think of a more propitious time to seize that offer, Mr. Chairman, either now or a little later.

The Chairman: Perhaps we could continue with the present line of questioning and consider that as an item when we have concluded.

Mr. Bryce: That would be agreeable.

The Chairman: I have two observations arising out of the points brought up by Senator Macnaughton. One of them is in connection with the Canada-U.S. Interparliamentary Exchange. My first question is in relation to the oil spill of the West Coast. A resolution was passed by the House of Commons, and I was added to that delegation I come from the area. We went to Washington very hurriedly and completely inadequately briefed. I can only say that, fortunately, it was an *in camera* meeting with our American confrères. Both the congressmen and the senators on their side were absolutely on top of their subject. They know every detail of how many tankers entered Portland, Maine, specifically to bring oil to Canada, as opposed to how many went down through the Straits of Juan de Fuca. We were completely unprepared. One or two of us, Mr. John Fraser from the House of Commons, the Conservative member there for Vancouver, and I had some local knowledge. However, I might say that our briefing was too hurried and we went there on 24 hours' notice. I raise this not to ask for further observations, but just because I consider it to be an important point. Senator Macnaughton, we might very well make a mental note to develop and deal with this in our report, as a separate item.

My other point relates to the problem of the Department of External Affairs having sufficient knowledge on all these specialized areas and building its own expertise within the department in the various areas, which it obviously must do.

Should the Department of External Affairs develop this expertise simply in order to know what is taking place, and stop there? Is it not dangerous for it to go the extra step and start making all the policy for all the departments? For example concerning the law of the sea and the concern of the Department of Fisheries regarding base lines and Canada's territorial limits.

Mr. Bryce: Possibly, sir. The difficulty is, I suppose, that External may feel that there is a reason, from their point of view, for having a different policy on base lines.

The Chairman: Yes, because of the world-wide implications.

Mr. Bryce: Yes, the law of the sea is a terribly important international matter. I have not been involved in the question of the base lines personally, but I know that there is quite a problem of choice as to whether the points are established at a greater distance or, closer. What is headland?

Senator Deschatelets: This returns to my previous point. With respect to Mr. Davis, the former Minister of Fisheries, is the implication that different policies were adopted by the former Minister of Fisheries and the Department of External Affairs?

The Chairman: That is certainly what he indicated to me. Of course, I suppose that is not sufficiently important, but it seems rather peculiar that the situation would not have been settled at some point in cabinet.

Senator Deschatelets: I cannot understand this case or how it took place, because such matter must be channelled

through cabinet to obtain a consensus of cabinet. That is what I have always understood.

Mr. Bryce: This is a good example of the difficulty that can arise in the implementation of decisions of cabinet. The cabinet cannot be expected to sit and look at the map and decide that the base line will run from this headland to that. The cabinet decides only that base lines are to be established.

The Chairman: Or it may be the case of adopting a 12-mile limit rather than three miles for territorial waters.

Mr. Bryce: That is correct. The problem, however, to which the chairman is really referring is that, having decided on a policy of establishing these base lines, there must be a study of the map, gulf by gulf or strait by strait, with the final determination being open to argument.

The Chairman: The north end of Vancouver Island to the Queen Charlottes was, of course, the great question.

Mr. Bryce: Yes, and it is also there going down the coast. There are many problems. Should the outermost points or the points going into or around the bay be decided upon? There is room for much argument and the Prime Minister cannot be asked to preside over the resolution of particular cases.

Senator Macnaughton: Mr. Chairman, may I put a comment on the record? While I do not wish to disagree with you in your remarks, I have a slightly different interpretation of the emergency meeting in Washington.

Firstly, the political implications of dumping by accident in the straits out West were suddenly realized by some of us in the East. Secondly, we called within a matter of 24 hours to our confreres down there and said, "Would you receive us and listen to our side of the argument, because an economic and political danger is beginning to stir in the West?"

The point is that within 24 hours from the call, we were down there at a luncheon, to which we expected about 20 senators and representatives. The place was a sell-out. They could not put more than 70 in the room. Automatically, during the luncheon period, we made our points to at least 70 people, and we then went into an all-afternoon session. Of course, we were not briefed properly. How could we be at 24 hours' notice? Thank goodness you and others who were there knew about it. The end result was that we made a suggestion to them that, instead of bringing the oil in by ship, we should bring it in by pipe. I do not know whether or not the suggestion has been taken up.

My point is that within a very short time, at 24 hours' notice, we were down there pleading our case, and we were listened to very sympathetically. They did not have to agree with us. The point is that they were friendly and listened to us. This, I think, proves the value of personal contact with members of Congress.

Of course, the briefing could be improved later on. Let us not lose sight of the fact that through personal contact, built up through 13 years of previous contact, we were down there within 24 hours and were received.

The Chairman: Senator, I am glad you clarified that. I realized from my remarks that I might have sounded critical of the exchange. I was critical only of the fact that we could have gone three or four days later and been properly briefed. To have been properly briefed would have been better. It was a very valuable exchange, apart from that.

Senator McNamara: With regard to the illustration you used about the Department of Fisheries, it seems to me there was an opposite point of view there. In my experience, in many cases the U.S. State Department is much friendlier to Canadian problems than are individual departments. I am talking about agriculture. In my opinion, there is a great danger of excluding External Affairs from present agricultural problems, where a minister has certain problems with producers, and so on. They may resolve problems that would be harmful to the overall relationship by avoiding and getting around our own Department of External Affairs. In so doing we are side-stepping the U.S. State Department, which has been the major friend of Canada in many of these discussions. Would you agree with that general observation, Mr. Bryce?

The Chairman: That is a valid point. I too would like to have our guest's view on it. I am thinking of a specific example. A Canadian minister went to Washington, saw his counterpart on a matter, and our people from the Department of External Affairs were present. The U.S. State Department was not alerted and did not have a man sitting in and listening. They made the point rather strongly afterwards that, "We are your best friends down here, not these individual departments. If you do not include us in the conversations, you make it more difficult for yourselves."

Mr. Bryce: I think that is true. We have had good friends in various offices in the State Department. Tresize, who was one of the negotiators of the Auto Pact, knew Canada well and had a real understanding of the Canadian case on a variety of things. He has now left. There have been others that I can think of.

Usually the State Department fellows, the good ones, know what the Canadian problem is. On the other hand, where you get some technical problems, you have to weigh the advantages of dealing directly with the functional department against this advantage of using the State Department. This is one of the things that the Department of External Affairs can contribute to by saying, "If we go through, or involve, the State Department, we are likely to get a more favourable result."

Senator Grosart: May I ask Mr. Bryce if he would say whether congressional control over the content of and decisions on foreign policy is much greater than parliamentary control in Canada?

Mr. Bryce: Well, sir, that is a sweeping generalization, but I guess I would not differ with it.

Senator Grosart: Would you say that part of the reason, at least, is what to me is a very antiquated concept in the Canadian Constitution and conventions, of the so-called prerogative of the Crown in foreign affairs—the sweeping powers of the executive to make decisions without first consulting Parliament, and, in some cases after? Is this concept of the prerogative of the Crown an anachronism?

Mr. Bryce: Mr. Chairman, this is a good probing question. I hesitate to express an opinion on it, because I have not put my mind to it. There is no doubt, if I can make it a little more general, that parliamentary-type countries have a greater ability to enter into commitments internationally than does the government of the United States. We have often regarded that as a problem in bargaining with the United States. You can see it now in the trade negotiations. The other countries are not willing to commence negotiations with the United States until the U.S. have congres-

sional authority to enter into an agreement. So I do not think it is a purely Canadian comparison. It is true with other parliamentary countries, such as Britain in particular, Australia, and so on.

Senator Grosart: That is, the countries under the Westminster tradition?

Mr. Bryce: Right. I do not know enough about individual European countries. I guess it is a little hard to bargain with the Italians these days, quite apart from their traditions. The more stable the government, the more you can expect to negotiate with them.

So this is a consideration, and an important consideration, in a variety of fields. Whether that is an anachronism is a different matter. Does Canada, as a country, want to be able to bargain more effectively, or do we want to have the sort of checks and balances that exist in the American Constitution and tradition? I would like to think about that question. I am sure there are people in the Department of External Affairs who have put their minds to it. I do not know what answer they would give.

Senator Macnaughton: Mr. C. D. Howe once said, "When I go to Washington to negotiate, I can say that if we agree on this we will do it." But you cannot say that, when speaking to the Americans.

Senator Grosart: Nor could C. D. Howe, obviously because we are faced with the fact that no country under a federal constitution—where there is absolute division of powers, where sovereignty is transferred to the legislature—is, in effect, sovereign in international affairs. The number one factor in international affairs is that a country has the ability to negotiate and conclude a treaty, and to implement it. Canada, because of our federal system, does not have that power.

To carry the other matter a little further, I do not agree with what appears to be your premise, that more parliamentary control over foreign affairs in Canada would necessarily jeopardize or denigrate our bargaining powers. In fact, my own conclusion is that it would have the opposite effect, for that very reason. For example, do you think it makes sense that the executive in Canada could tomorrow conclude a treaty with, let us say, the Caribbean Community to provide for their defence without in any way consulting Parliament and without even requiring parliamentary ratification?

Mr. Bryce: Surely, in our parliamentary tradition the government would only do that if it felt it could get action by Parliament to implement such a treaty, whether by way of approval of expenditures in that regard or other matters requiring parliamentary authority. Also, the government would not want to run the risk of a vote of censure or no confidence arising out of an initiative in Parliament to express a contrary view or a contrary policy. Here again I am searching back into my memory, but I think it has normally been the case that the government would seek parliamentary approval on important matters, such as the one you have suggested in relation to the Caribbean Community, Senator Grosart.

Senator Grosart: I do not agree with you, but go on.

Mr. Bryce: I am not saying that that has always been done. I have no doubt that the exceptions are probably those where some fight was expected, but I can recall occasions when a vote was requested in relation to a particular agreement that had been reached.

Senator Deschatelets: Perhaps Senator Grosart could give us a specific example of what he has in mind.

Senator Grosart: One example is a matter on which this committee reported, that being the closing of the embassy in Santo Domingo the very day that a Canadian corporation was moving in to establish a role in the economy of Santo Domingo which amounted to one-third of their GNP. On that occasion the government went so far as to officially announce that Canadian-Santo Domingo relations would now be carried on from our embassy in Haiti. Parliament was not consulted in relation to that, and yet there were people in Parliament who could have told the government that it could not offer a worse insult to Santo Domingo than to say that its relations with Canada would be dealt with through the embassy in Haiti.

The Chairman: Are you suggesting, Senator Grosart, that Parliament should be consulted before we close or open an embassy?

Senator Grosart: Of course Parliament should be consulted. Another example is when we closed our embassy in Cyprus and announced to the Cypriots that Canadian-Cyprus affairs would now be dealt with through our embassy in Tel Aviv.

The Chairman: I am not arguing as to whether such decisions were sensible or otherwise, but surely they were of an administrative nature.

Senator Grosart: As Mr. Bryce has already said, there have been a good many examples where the executive has said, to use his own phrase, "We will consult Parliament; we will put it before Parliament." What I am saying is that that is not good enough. It is the feeling of a great many parliamentarians, not necessarily on one side particularly, that it is not good enough that we can be committed to such situations without any prior discussion in Parliament.

It is only in the last 15 years, perhaps, that parliamentarians have gone abroad to any great extent, and a spin-off of this is the dissatisfaction on the part of most parliamentarians in our relations with our ambassadors and high commissioners when travelling abroad. The difference between the treatment American congressmen receive from their State Department when abroad and the treatment we receive is appalling. I think everyone who has been abroad will agree with that. We do occasionally find an ambassador who likes Canadian parliamentarians, but normally we get the feeling—and hopefully you will contradict this—that the Department of External Affairs resents parliamentarians mixing in what they consider their exclusive bailiwick. I suggest that this is the concept of the prerogative of the executive and, therefore, of External Affairs, in this whole field of foreign relations.

Mr. Bryce: I am fascinated to hear your comments in this regard, Senator Grosart. I think if I were sitting in your seat I might feel somewhat the same. I am not really equipped by my experiences to say whether it is proper to consult Parliament, either in a formal or informal manner, in relation to the closing or opening of embassies, and so forth. I believe it is normal in the U.S. system, when the government is going to open a new embassy or close an existing one, for the government to have some contact with the congressional committee concerned, and I do not think there is any doubt that Congress does express views about individual items on foreign policies, an example of which would be what aid should go to what country, and the scale

of such aid. The input of congressional committees in that regard probably far exceeds what parliamentarians here are normally expected to be consulted about.

I think a major issue for the government has to do with how much detail it is essential to clear with parliamentary committees, and I certainly recognize that Parliament has taken a much greater interest in the details of foreign policy in recent years. I remember the great interest in major issues in the 1940s and 1950s and the controversies which arose in relation thereto. However, I am really not up-to-date as to Parliament's interest in particular countries and the channels through which Canada deals with those countries.

Senator Grosart: I have given two examples in response to Senator Deschatelets' question, both of which took place under the present administration. To give an example of this type of thing under a former administration—and this is one with which you are very familiar—I would cite the Cuban crisis, when President Kennedy decided to forget about the freedom of the seas and to place an embargo on access by sea to Cuba. In that particular case, a major decision was made in relation to Canadian policy within just a few hours without prior consultation with Parliament, and that was a decision with which the majority of the people of Canada disagreed.

If you want to be specific, I can remember spending two wasted hours trying to convince the then Minister of External Affairs not to go on television and say we would not support President Kennedy. Here is another example. It was a major decision, which was obviously contrary to the consensus of Parliament, as it later developed.

Would you, from your experience, agree that Parliament should have a greater control of the content of—and I use that word deliberately—and the decisions made in foreign policy? Would you agree with that? I mean structurally, by fundamental changes that would be required in our Constitution, as well as in the structure of executive parliamentary relations?

Mr. Bryce: I really squirm at answering Senator Grosart's fundamental question. I do not feel that I have given adequate study to the implications of this. I, of course, recognize it as something that Parliament should legitimately raise with the executive, with the Crown; and no doubt it will, from what he has said.

Senator McNamara: May I ask my friend Senator Grosart a question? I am somewhat at a loss to understand how this line of questioning is related to our relations with the United States. I think you are raising some fundamental issues with regard to the operation of our own government and our own Parliament, but I cannot follow how this line of questioning affects Canada-United States relations.

Senator Grosart: There is a very simple answer to that. If Parliament had more control of our Canada-U.S. relations they would be better than they are. That is my quick answer to that.

The Chairman: May I say, in part answer to Senator McNamara's point, that I have contemplated within the last minute or two exercising the prerogative of the chair and reminding you that we should try to confine ourselves to the Canada-U.S. question. However, the point raised by Senator Grosart has been so interesting that I had not

wanted to interrupt him. Naturally, anything that affects our relations with all countries also affects our relations with the United States. This is a very general constitutional area that we have got into.

Senator Grosart: Mr. Chairman, I am very surprised to hear you make that intervention, because it was you yourself who raised the whole question of parliamentarians' briefings from External Affairs, which goes back to the prerogative of the Crown. If the question of parliamentary control of foreign affairs is not of the essence, pith and substance of Canada-U.S. relations, then I have been wasting a lot of time.

The Chairman: I think it is the pith and substance of Canada's relations with all countries.

Senator Grosart: Of course.

The Chairman: Including the United States.

Senator Grosart: Surely you are not suggesting we should raise here only questions that are exclusively Canada-U.S.?

The Chairman: No.

Senator Grosart: Surely we have to put it in the whole context of our foreign affairs policy, the conduct of the policy, the structure of the policy, and the places where the decisions are to be made? All I am suggesting is that this is as much the essence of our problems with the United States as many of the other things.

The Chairman: It could well be, and I am certainly not asking you to discontinue this line of questioning. I just wanted to make that comment to Senator McNamara.

Senator Grosart: Well, I do not agree with the comment.

Mr. Bryce: are there rules or guidelines promulgated by External Affairs to suggest the degree of overflow of information of departmental activities in—just to keep the chairman happy—Canada-U.S. affairs, such as there are in the United States? I have seen a memorandum from the State Department which indicates the areas in which there must be an immediate report to the State Department, to make it quite clear. This requires that 'phone calls, letters and visits be cleared with the State Department; not necessarily cleared, but reported to the State Department automatically. Is there anything like that in Canada? If not, should there not be?

Mr. Bryce: With regard to visits, I think there is. Certainly I know that when I was in Washington we were always expected to, and did, inform the embassy there of any visitors we had from Canada, and those who, in the Washington set-up, including myself for example, were looking after them and would be a source of information about them, and generally the nature of the business they were taking up. In the case of visits that was quite clear.

I do not recall any understanding about 'phone calls. In my own work down there I had innumerable 'phone calls back to Ottawa. Of course, we have lease lines, and I suppose I was on the 'phone to the Department of Finance on average once or twice a day. I kept the embassy generally informed of anything that seemed to me important in Canada-U.S. relations; I would just call them, or see them from time to time, and tell them if we were getting into a controversy with the United States over something in the work of the IMF. However, I have not been aware of any guidelines in regard to telephone conversations. On the

other hand, I have not been working in a department here in the past four or five years where I would see it, so I am not a good witness as to whether there is such a guideline in regard to telephone calls. I think that has been left really to the discretion of those concerned.

Senator Grosart: Would you suggest that copies of letters, for example, should be sent to External Affairs?

Mr. Bryce: Some certainly should be. I do not believe it is the invariable practice to do that.

Senator Grosart: Would you agree that it might be useful and increase the degree of cooperation between the departments and External Affairs if some such guidelines were issued, rather than have it left to the discretion of the individual? The reason I say that is that, with the proliferation of executive assistants, associate and assistant deputy ministers and so on, many of whom are quite new to the system, their discretion might not be too reliable without guidelines. Should they not have some guidelines?

Mr. Bryce: I think this is a practical point that we ought to consider. In my own experience, I would write to the Department of Finance and the Bank of Canada, or telex them—I often used the open telex rather than the external affairs network for routine messages—and I used my judgment as to whether the matters I was reporting were of sufficient interest to External Affairs to send to them. I think that is probably the case with other people. There is an enormous flow of correspondence between, let us say, defence representatives in Washington and the Department of National Defence up here, between trade officers down there and up here. A lot of it would just encumber the files of External Affairs. The question is how much judgment you want to leave in the hands of the originating officer. I think that is the essential question.

Senator Grosart: I was suggesting that there might be guidelines that would define the general areas in which they would be required to report to External Affairs. It has been suggested that a part solution of this problem might be the appointment of an External Affairs officer in departments dealing on a fairly continuous basis with—to keep the chairman happy—the United States, pretty much along the lines of a structure I am sure you would be familiar with, namely the Office of the Bureau of Management and Budget in the various departments in the United States. Would you consider that as a useful innovation, that there be an External Affairs officer attached to every department?

Mr. Bryce: And he would be responsible for really scrutinizing their correspondence, and that sort of thing?

Senator Grosart: He would be there as a consultant, and as an adviser and as a reporter to External Affairs on what is going on.

Senator McNamara: Something in the way that Justice does now?

Senator Grosart: I understood you to say that there were representatives of the departments in our embassies.

Mr. Bryce: Of a number of departments, such as Industry, Trade and Commerce. In Washington there is a representative of the energy department there, a very able representative.

Senator Grosart: They are not officers of External Affairs?

Mr. Bryce: No, but they come under the ambassador when they are in the embassy, and properly so. I think one of the troubles—and I can speak with more confidence about the Department of Finance—is if there were an External Affairs officer in the Finance Department he would have to deal with quite a wide range of issues, including trade, investment, international monetary arrangements. In fact, what he would be doing is then reporting back to any one of half a dozen divisions in External Affairs and at various levels in External Affairs. In fact, if you take one of the assistant deputy ministers in Finance who is used to dealing with international matters, he wants to call a man in External Affairs whom he believes is the one who knows the subject best and has the degree of responsibility that he can discuss it on the phone with him and try to reach some agreement about it. I think that to have him go through a single officer who would almost inevitably be an officer of relatively junior rank would be an inhibition and complication of the contact. The important thing is to get the right man in External Affairs who can deal with the thing and deal with it promptly.

Senator Grosart: I was not suggesting someone who would have the exclusive channel: I was thinking of somebody who would be informed of what was going on, particularly at some of the lower levels—because we are carrying on international relations, Canada-United States relations, sometimes on very low levels in the Public Service. This is a matter of some concern. I know of a number of cases that have been reported to me by high commissioners and ambassadors where this has been damaging. As a matter of fact, I have had a letter in my file that I decided to show to the Secretary of State for External Affairs. I tore it up the other day and decided I should not give it to him, as it will raise hell.

The Chairman: Senator Grosart, thank you very much. I do not want to cut any senator off if there are other questions; but do keep in mind that we still have to come back to the question raised by Senator Macnaughton, of getting some views from our witness on the International Monetary Fund.

Senator Macnaughton: Mr. Chairman, could I enlarge on a subject which Senator Grosart has raised and which I think is of great material interest, particularly in view of the witness we have here? The question is ministerial discretion, and Senator Grosart referred to the proliferation of assistant deputies and so forth. My question is, how far down do you think ministerial discretion should be delegated or, to help you a little, in certain departments such as income tax? I do not want to give cases or anything, but I believe this discretion goes down to, let us say, a 28-year-old employee of the department, by a process of delegation. Is that right? Don't the citizens have a few rights too?

Senator Grosart: I know some of the cases.

Senator Macnaughton: Ministerial discretion is such a powerful thing, such an important thing.

Mr. Bryce: I think I share some of your concern. On the other hand, I am getting to be an old man myself and I keep having to remind myself that when I was young I was doing a lot of things which I thought were pretty important and, I guess, were pretty important, and I have to remind myself that there are always good young men who can be entrusted with responsibility. I remember at one

time I was thinking about an appointment and discussing some body, and I said, "He is pretty young for that job." I looked up the record in the afternoon and I found that I had been appointed to a similar job at about his age. I withdrew my objections. It is so hard to generalize on this. You can get good young people, middle rank people, and give them instructions and leave them to decide what falls within that and what does not. On the other hand, you can get some fairly senior officials whom you would not entrust with some major decisions.

Senator Grosart: And some ministers.

Mr. Bryce: Well, that is not my problem. So it depends so much on how the delegated power is hedged around with instructions, on the one hand, and what sort of personality you are dealing with, on the other hand. When it comes to conducting relations with another country you have to be particularly careful. You can often get valuable information from junior people. I can recall instances where a young man was able to get information from his connections that I might not have got from their superiors and that is a valuable function, but the people who do it have to have some sense of what is important.

Senator Grosart: He was still going with girls then!

Mr. Bryce: This collecting of information can be done at all levels, including relatively junior levels. But when you have to take decisions as to whether you accept this offer or settlement, this is really quite important in international affairs, and I agree it should not be left to the lower levels.

Senator McNamara: I still raise the point that, where you have a welfare state and tremendous bureaucracy, the proper use of ministerial discretion, that the proliferation referred to is becoming a vital matter, one of great importance to the citizens of this country.

Senator Grosart: If I may venture a supplementary comment. I think what Senator Macnaughton is referring to is the increasing number of situations where the decisions are taken at quite a lower level; that is, where the tax department is taking really a decision affecting the essential relations between Canada and another country. A good example is the involvement now in the Foreign Investment Review Board, where the last I heard was that you cannot expect a decision for six months. I do not know what it is now. Business decisions cannot wait that long. Canadians negotiating on behalf of foreign firms, some from the United States, in many cases are in a position of not being able to obtain an answer or break through this bottom level of bureaucracy. Therefore, the effect of departmental decisions on essential Canadian-American relations is a new dimension in external affairs. Is this unique in Canada?

Mr. Bryce: No, I do not believe it is.

Senator Grosart: I was sure that would be your answer.

Mr. Bryce: I know people who have had experience, for example with the exchange control authorities of other countries, who were incredibly frustrated.

Senator Grosart: So these become, in effect, non tariff barriers?

Mr. Bryce: They are delaying processes, at least—sometimes deliberate, sometimes not.

Senator Carter: Conceivably, Mr. Bryce, an issue could arise between Canada and the United States which would affect two or more Canadian departments, which may have conflicting views on the particular issue. What machinery exists to reconcile these views before they are taken up with the United States?

Mr. Bryce: First of all, there is a widespread informal network of contacts between officials in the various departments, which is where it starts. Let us say there is an issue which is related to agriculture and trade. It is possible that the Department of Industry, Trade and Commerce and the Department of Agriculture will have to consult and determine whether they can reconcile the issue.

Senator Carter: Would that be at the ministerial level?

Mr. Bryce: No.

Senator Carter: At what level would it be?

Mr. Bryce: It will start at the level of officers in a division concerned with a particular problem. It will be passed higher and higher, depending on the importance of the issue, until a concrete decision can be arrived at between those with responsibility or, eventually, it may have to be referred to a cabinet committee for resolution. Of course, the great majority of such questions are resolved short of that, but differing points of view in respect of many cases must be resolved in that manner.

Senator Carter: Is that a standard procedure? How do you know that this consultation does take place, or how can you ensure that it takes place?

Mr. Bryce: Of course, some may endeavour to settle such issues personally, without consulting others concerned.

Senator Carter: That is my point. How are such problems avoided?

Mr. Bryce: We often hear about them. One great advantage of the communications methods in international affairs is that a great flow of telegrams is received from the Canadian missions abroad, including Washington. Many of these matters are reported by telegrams, which are circulated to those interested. One of the duties of External Affairs officers is to ensure that various messages go to those who are concerned and not just to those who were initially involved. It is a continuing battle and it cannot all be included in a rule book providing that Mr. "X" cannot settle anything with an American department, in connection with subject "Y".

Senator Carter: Who becomes the final authority? Is it the Department of External Affairs, a cabinet committee, or some other agency?

Mr. Bryce: The duty lies more on the Department of External Affairs than anyone else to spot cases of that nature. However, it may involve others, such as officers of the Department of Finance.

Senator Carter: I am referring to reconciling the conflict of interest between the two or three departments.

Mr. Bryce: I presided during earlier periods over a great many inter-departmental discussions and committees when I was Secretary of the Cabinet, because I was regarded as a reasonably neutral party. The Secretary of the Cabinet and his officers still have to perform a fair amount

of that function in an endeavour to bring dissident departments to a common point of view. This is reported, normally, higher in the department. If it is being carried on at a lower level it will be reported to the deputy minister or the next rank below. In due course it may be reported to the Prime Minister by the Secretary of the Cabinet or his officers.

Senator Carter: Does the Privy Council play a role in Canada-U.S. relationships?

Mr. Bryce: It does, sir, but I would be hesitant to say what that role is now. Certainly, when I was the Clerk of the Privy Council, and nuclear weapons was one of our great problems, I played a role, and had to, from month to month. Senator Grosart can remember some of those incidents also.

It certainly does, because, manifestly, a great many of our external problems are with the United States. They are important and highly controversial problems, and the Prime Minister must be kept informed of them. Some of his officials must be able to give him information on the problems.

Senator Carter: Does a counterpart to the Privy Council exist in the United States organization?

Mr. Bryce: There is the White House staff and the executive office of the President. It is not exactly a counterpart, because the system is sufficiently different, but that is the nearest to it.

Senator Rowe: Mr. Chairman, regrettably, I missed the first part of this discussion, but I was intrigued by Senator Grosart's suggestion, which I believe was supported by Senator Macnaughton, that before any major decisions are taken in respect of the treaties and various foreign affairs agencies and bodies we have scattered all over the world, Parliament should be consulted, there should be more consultation—with which, in general, we agree.

However, I wonder about the practicality of that. How far should it be refined? For example, to take a concrete case, suppose that our relations with the United States deteriorate to the point at which our government decides it should show its displeasure by recalling the ambassador from Washington, is it suggested that before a step such as that is taken there should be consultation with Parliament? If so, does that not in a sense negate the whole idea of executive government? I am not being critical so much as seeking information.

Senator Grosart: The quick answer would be that that relates to every decision, whether concerning external affairs or anything else. When should Parliament be consulted? Under the general theory of democracy, parliament is supreme. How supreme is parliament? Some supreme parliaments are more supreme than others. That is really the answer to the question.

I can give you another example in another area. Some time ago it was decided that we should dispatch a battalion of troops to the Caribbean, ostensibly for tropical training, at a time when in at least one nation an internal revolt was imminent. Anyone who knows the Caribbean realizes that it was widely interpreted as a defensive measure, a sort of overt, CIA-type operation. Those are the kinds of things that I am suggesting Parliament should be consulted about, if no one can draw an exact line. My point is that the Americans do have much greater congressional control over foreign policy.

I might say that we have been discussing the role of Canadian parliamentarians in the Canada-U.S. group. One of the things that any parliamentarian going there would feel immediately is that we are minor operators compared with our opposite numbers. In the case referred to by the chairman, we all realize that if we could convince one American senator, the senator from Alaska, we could solve the whole case. He has authority and control over United States foreign policy that none of us has, or could even approach, in our own field. There is this difference in the credibility of the power of parliamentarians that is highly noticeable whenever we sit down with American parliamentarians. I think we would all agree with that. It stems from the degree of parliamentary control over foreign affairs.

The Chairman: Gentlemen, do you wish now to move on and spend a few minutes on the International Monetary Fund?

Hon. Senators: Agreed.

Mr. Bryce: Mr. Chairman, I thought I might relate this briefly to our relations with the United States, because there are some relationships.

The International Monetary Fund, as you know, was set up by treaty back in 1945 or 1946. Our authority to make those commitments was approved by Parliament under the Bretton Woods Agreements Act, so there can be no question about Parliament being involved in the early stages of this. We have to go back to Parliament when the articles are altered.

The fund is really a meeting place of governments rather than a body that operates solely in its corporate capacity. The World Bank is more like a body that operates in its corporate capacity. But in the case of the Monetary Fund, an executive board meets several times a week and makes decisions that can be made under the authority vested in the board which consists of 20 representatives of all the countries that belong to the fund. These representatives are the executive directors. Five of them are appointed by the five countries with the largest quotas. Those are the Americans, British, Germans, French and Japanese. The remainder of the directors represent a number of countries, including the director who represents Canada. Those fifteen directors are elected by the votes of the different countries. So the (fund and the World Bank) differs from almost all other international organizations in this question of multiple representation and the need to reconcile the views of the various countries which one represents.

We have recently extended this practice up to the ministerial level in setting up of, first, the Committee of Twenty that was to investigate proposals for reform of the international monetary system, and, more recently, in establishing an Interim Committee with broader terms of reference which is interim in the sense that it is supposed to be modelled after a council of ministers, if you will, to be established when the articles of agreement are amended at the next opportunity.

In order to get a body of reasonably workable size, we have used the same principle of multiple representation.

In our case on the Executive Board, I was representing not only Canada but Ireland, Jamaica, Barbados, and, lately, the Bahamas. So we have these Caribbean countries to represent as well as Ireland and ourselves. The same sort of thing is true of 14 other directors. At has been a very interesting experiment in seeing the problems that

exist. For the directors, this process has been going on for nearly 29 years. For ministers, it has been relatively new. It has been quite a problem, not only for the Canadian minister but for the ministers of other countries to be able to represent a group.

It has been an interesting example of the problem of getting effective action in international affairs by keeping down the numbers at the cost of making the job more difficult for the man, be he the executive director at the executive board level or, now, the minister at the council level, in being able to reconcile divergent views and still contribute effectively to decisions.

There have been two ways in which Canadian-American relations have become involved in the IMF in recent years. One is on the substance of Canadian-American, economic relations, as such. This arises in the normal business of the fund. The fund has to deal with exchange rates, and it has also to take views on internal policies that affect a country's balance of payments. The directors are expected to express views on these policies. The fund sends a mission to each country each year—it could be 18 months in some cases—and those missions write reports which are reviewed by the executive board.

The chief purpose is to enable the international community to express views on whether the policies being followed by a country pay adequate attention to the interests of other countries.

Currently, for example, there is a strong effort being made to see that, in meeting the problems created by the energy crisis—the price of oil, and the balance of payments deficits that arise from it—the actions of various countries do not lead to spreading restrictions on trade, or spreading devaluation of currencies or efforts to devalue currencies. The effect of that would be a futile passing around of the burden, because in the present circumstances the non-oil exporting countries, collectively, cannot eliminate their deficits vis-à-vis the oil exporting countries. The oil exporting countries are bound to have large surpluses. They have far more money—foreign exchange—than they can spend. In this case we have been trying to scrutinize the policies of member countries to see that we were not unnecessarily exacerbating the international economic situation as a result of reacting to this crisis.

As far as Canada-U.S. relations are concerned, I think the main problem of interest at the IMF has been the American view as to the Canadian exchange rate as it related to the balance of payments position of Canada vis-à-vis the United States. In 1971, as I indicated earlier, the Americans had the feeling that Canada was enjoying large surpluses in its balance of payments with the United States, thereby adding seriously to the huge American balance of payments deficit with which they were confronted at that time. Because of that, the United States regarded Canada, next to Japan, as one of its principal sources of trouble. The result of that feeling, of course, is that it looked very critically at two things we were doing, the first being whether we should revalue our currency upwards relative to the U.S. dollar, and that came to a climax in what we call the Smithsonian re-alignment of currencies that was decided upon in late December 1971. There was a serious confrontation between Canada and the United States on this subject at that time, in the meeting of the "Group of Ten" countries. The changes agreed at that meeting were immediately transferred back to the IMF for legal implementation.

This attitude continued through 1972 and into 1973, during which time we were continuing to let the Canadian dollar float. The efforts of the Americans to get us to stop floating in December 1971 did not succeed. It was illegal, in terms of the articles of agreement of the international Monetary Fund, for us to do so, but it was not new for us to be breaching that aspect of the agreement. The Americans then began to take a lively interest in how we were influencing the level of the Canadian exchange rate while it was floating, how we were intervening in the market. We had, therefore, both bilaterally and through the IMF, considerable discussion as to whether our floating was "clean" or "dirty", to use the words prevalent at that time.

Early in 1973 the Americans brought this out into the discussion of the Canadian situation at the executive board of the fund. Perhaps I can best sum it up by saying that the American director put forth the view that the U.S. would prefer Canada to go on floating unless we were willing to peg our exchange rate at a higher rate than it was. That was in January 1973, and it reflected their attitude that had prevailed up until that time. A month later, the U.S. devalued the dollar for a second time vis-à-vis the currencies of most other countries, therefore giving them a better competitive edge. However, the floating Canadian dollar followed the U.S. dollar downwards. Within another month or two the Europeans and Japanese were also floating their currencies vis-à-vis the American dollar. In fact, the situation became such that you could not tell who was floating and who was not. There was really no fixed exchange rate, and that is still the case.

Senator Grosart: Or whether they were really floating.

Mr. Bryce: Out of the experience in 1973 it appeared that if there was any country floating its currency reasonably "cleanly" it was Canada. We were not under much pressure from the IMF or from the U.S. to change our practice, as had been the case previously. Indeed, Canada and the U.S. gradually came, in the discussions respecting the reform of the international monetary system, to share much the same views as to the correct behaviour for a country whose currency was floating. Meanwhile, other countries, including the main European countries, the Japanese and the British, had developed new doctrines, new practices, in which they were managing their floating currencies with skill and with very substantial capital transactions backing them up, the result of which was great intervention in the market.

I think it is fair to say that we have seen the evolution, or the resolution, since 1971, of what was at that time a rather serious problem in Canada-U.S. relations, to the point where it is no longer a significant source of tension between the two countries. This has resulted, I think, partly from the evolution of the system as a whole, and partly because of the change in the strength of the Canadian balance of payments generally and vis-à-vis the United States. We have not been showing in recent years the surpluses which we had in the years 1970 and 1971. This problem has been dealt with both bilaterally between the Department of Finance of Canada and the Treasury Department of the United States, as well as at IMF meetings. I might say that on the whole we got good support from other countries in relation to what we were doing, once they gave up their doctrinal positions regarding the floating of currencies. They were, of course, budged from their positions by the events of 1971 and 1972 and, finally, by the general situation reached early in 1973.

I think it is fair to say that the problem between Canada and the U.S. which existed in 1971 has now been resolved. It could recur. In the resolution of that problem, I may say, the Department of External Affairs was kept well informed of the situation, as was Canada's Ambassador to the United States. Also, I kept them in close contact with what was happening in the IMF. I had daily contact with the Department of Finance here in Ottawa and with the Bank of Canada, although less frequently.

The second field that perhaps I should mention is the work on the reform of the IMF system as a whole. We have had both differences of view with the Americans and parallel views. We have, of course, upheld our own views when we felt we should differ with them. The most notable example of this has been on the rates of interest to be paid by and to the IMF in respect of the "special drawing rights," which are the creation of the IMF, that has constituted a new reserve asset. It is a difficult thing to describe, but the essence of it is that we have tried to make it the growing element in the reserve assets of countries.

The Americans differed from most of the rest of us on the rates of interest that should be payable. Exactly why they did is not too clear. The most Machiavellian reason may have been that they really wanted the American dollar to be preserved as the main reserve asset. This use of dollars in reserves was not contrary to the Canadian view, because we have always been quite prepared to hold American dollars as our chief asset. However, it was contrary to many of the European views, the Japanese views and others.

We did argue very strongly that if the new reserve asset created by the IMF was to be accepted in the modern world, it had to carry a rate of interest that was comparable or competitive with the rates of interest that one could get by holding United States dollars in the normal forms in which reserve assets are held, or holding some of the other currencies, the issuers of which did not like to have held as reserves, for example the deutschmark. The Germans have been very opposed to their currency acquiring a status of a widely-held reserve asset, and they have tried to discourage that. However, because of the phenomenal strength of the deutschmark in the exchange markets in the last five years there is a widespread desire to hold it. While the Germans can prevent countries holding their reserves in Germany, they cannot prevent them from holding the obligations of banks outside of Germany expressed in deutschmarks, and they have not really succeeded in that.

However, I would say this was the main point on which I think we have differed from the Americans in carrying out the reform and improvement in the monetary system. Many of our views on what was in the Canadian interest, the main views as to what was in the general interest, have been much the same as the American's. There has been the occasional instance when we did not have very strong views one way or another, and we have supported the Americans because we did not want to see them isolated. I guess one instance of this has been the use of reserve levels for what have been called, objective indicators, as to whether a country should be adjusting its balance of payments to get a lesser surplus or a smaller deficit. The Americans were anxious to get some kind of objective test, I think, originally in the hope that in that way they could get a system that would satisfy Congress, that indicated objectively when the United States, or other countries, had to try to adjust and eliminate deficits or surpluses, wheth-

er by changing their exchange rates or by other measures. I think the Americans made a rather convincing case that they could take part in this adjustment process more effectively if it could be divorced from either an institutional view on the part of the IMF as a group or from a view that had to be sold by American politicians on the grounds that the US balance of payments was interfering unreasonably with the situation in other countries.

On that, I think it would be reasonable to say that we decided we would support the Americans and that, even though we did not feel very strongly in favour of or against it at the time, we helped them to get their idea across. The situation in this field has not been settled, but it is in the public record that there was a measure of support for the US proposal.

These were the kinds of issues that have arisen down there, sir. I thought the committee might be interested to know the nature of this international body, which one can say has been a very successful body, and the kind of issues that have arisen there with the United States.

The Chairman: Thank you very much. That has been very educational, from my point of view.

Senator Grosart: May I ask one question, and then I have to go. May I ask Mr. Bryce if the International Monetary Fund has ever used or threatened to use its financial powers to bring a country into line?

Mr. Bryce: Rarely ever has it done that, except with the countries that are in trouble and are having to borrow money. In such cases it is quite clearly understood that if you are borrowing money from the IMF you usually get it at low interest rates but subject to conditions. The degree of conditionality varies with the amount you are having to borrow. You get your own money back, your gold "tranche" as we call it, the credit that you get on the IMF books because you deposited gold originally, without any conditions.

For the next slice, the first credit "tranche", you have to tell the IMF what you are proposing to do to eliminate your deficit. Beyond that level you usually have to enter into a standby agreement under which you commit yourself to certain policies, and you do not get the money unless you are following those policies. So the IMF uses that power, but it does not use any other pressure normally. When you come along to change your exchange rate or to explain why you are floating you may be subject to quite an interrogation. Very rarely has the IMF disagreed with a country as to how its exchange rate should be changed.

In 1973 the American director and myself decided that we ought to look more critically at the countries that were trying to follow the American dollar down. So we did adopt a more critical attitude at that time, because a lot of countries were assuming that they could follow the Americans in their second devaluation automatically. And this was going to reduce the effect of the American devaluation, and the Canadian devaluation with them.

Senator Grosart: Were sanctions ever applied to Canada?

Mr. Bryce: No, but we have been scolded a lot about floating.

Senator Grosart: Excuse me, Mr. Chairman, I have to go.

Senator Rowe: The conditions would never be of a political nature?

Mr. Bryce: No. We try to be very careful about that. The Russians were parties to the original agreement, although they never implemented it or ratified it and the articles of agreement reflect that fact. Consequently the views of the IMF do not relate to political structure or behaviour but they relate to economic policy, to fiscal policy or to monetary policy.

Senator Rowe: But not to ideology or to the political structure?

Mr. Bryce: No. We had quite a time making a standby agreement with Chile not quite a year ago, I guess. We did not have a standby agreement with the government of Allende because it was really not prepared to enter into an agreement with the commitments that would entail, but after the fall of the Allende government there had to be an effort to control the very serious inflation.

Senator Rowe: Why were they afraid?

Mr. Bryce: The Allende government?

Senator Rowe: Yes.

Mr. Bryce: Because they thought it would undermine their support in the country. They were in a delicate relationship with the Chilean parliament or congress. They had a minority status and they were doing a whole lot of things that were pretty tough economically, but they felt they did not have strong enough support to enter into the commitments that would be necessary to know from the IMF.

The Chairman: They did not have enough support to tidy up their own house?

Senator Rowe: They were afraid of the overriding influence that the United States might exert?

Mr. Bryce: Well, they know that they have to get these agreements through the board, and the United States has more votes than anybody else on the executive board because of the way of voting in these organizations. It is in proportion to your quota—not just, one country one vote. After the new regime came in and had a grip on things—as you know, it was a pretty firm grip,—we had a very able

staff member go down and negotiate an agreement with them to borrow from the IMF on the basis of a program to stabilize their economy. There was a very able representative of Chile on the executive board who assisted. The IMF agreement was the foundation then for agreements of Chile with its main international creditors, so it had a significance beyond the amount of money the IMF put up. But I think that is an illustration of how you have to be prepared to deal with a variety of regimes.

The Chairman: Gentlemen, I see it is just noon, and I believe we have kept our guest much longer than we originally anticipated.

Senator Deschatelets: Can I ask just one more question, Mr. Chairman?

The Chairman: Yes, certainly.

Senator Deschatelets: I imagine the IMF discussions and exchanges are continuous.

Mr. Bryce: Yes.

Senator Deschatelets: From one country to another. But supposing one member country decides to let the dollar float or devalue, or something like that, that becomes a unilateral decision?

Mr. Bryce: Not in principle. A country is expected to get the agreement of the IMF to change its exchange rate. That was part of the original undertaking and one of the purposes in setting up the IMF.

Senator Deschatelets: Is this being followed now?

Mr. Bryce: Not nowadays. They have lost their legal grip on rates, but they are trying to maintain an orderly situation by comments and persuasion.

The Chairman: Mr. Bryce, I should like to thank you very much for giving us your time and being so frank and informative. I am sure your observations are going to be very helpful to us when we come to put together the various subjects we have undertaken in this study.

Thank you very much, indeed.

Mr. Bryce: Thank you.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 3

THURSDAY, DECEMBER 12, 1974

Second Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate

Minutes of Proceedings

Thursday, December 12, 1974.

(6)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met *In Camera* at 9.05 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Cameron, Carter, Croll, Deschatelets Grosart, Lafond, Laird, Macnaughton, McElman and McNamara. (11)

Present but not of the Committee: The Honourable Senator McGrand.

In attendance: Mr. P. C. Dobell, Director, Parliamentary Centre on Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Mr. H. Ian Macdonald, Toronto, former Deputy Minister of the Department of the Treasury and Economics and Intergovernmental Affairs of the Province of Ontario and presently President of York University.

*Agreed,—*That portions of the proceeding of this *In Camera* meeting be printed, subject to the approval of the witness concerned.

At 12.20 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

NOTE: In accordance with a resolution of the Committee dated December 5, 1974, portions of the printed Proceedings of *in camera* hearings held on May 8 and May 1, 1974, are appended hereto as appendices "A" and "B".

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, December 12, 1974

The Standing Senate Committee on Foreign Affairs met *in camera* at 9 a.m. this day to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, before introducing our guest today, I might mention that this is the last witness we have scheduled before the Christmas break. While it is tentative, a sort of firm tentative date has been made with our ambassador to the United States, Mr. Marcel Cadieux, for January 23, which is a date, almost certainly, after the House of Commons will be resuming but it may be a day or two before the Senate resumes. Mr. Cadieux is, as you know, a very busy man and it has been somewhat difficult to fix a date convenient to him, so we will probably have to stay with that date as far as he is concerned.

It is a pleasure, honourable senators, this morning to welcome on your behalf the President of York University, Mr. H. Ian Macdonald. Mr. Macdonald was born in Toronto and educated at the Universities of Toronto and Oxford. He is an economist. He was appointed to the new position of Chief Economist of the Province of Ontario, in the sixties I believe. Subsequently he became Deputy Provincial Treasurer, and in 1972 Deputy Treasurer and Deputy Minister of Ontario Ministry of Treasury, Economics and Intergovernmental Affairs. In July of this year he became President of York University. From 1965 to 1971 he served as Chairman of the Ontario Advisory Committee on Confederation.

It was while Mr. Macdonald was Deputy Treasurer and Deputy Minister of Economics at the Ontario government that the Ontario government indicated its interest in having more direct lines of communication in Washington. Honourable senators will probably remember the publicity that was engendered at the time. This initiative involved the province in some intricate negotiations with the federal government—I believe the minister then being Mr. Mitchell Sharp—which eventually resulted in the arrangement whereby a federal official was designated at the Canadian Embassy in Washington to be responsible for seeking information desired by the Ontario government, and who would report to it and take directions from it. I believe this is the first witness we have had directly connected with the provincial field, which will give honourable senators an interesting opportunity to probe the natural desire of not only Ontario but other provinces to have officers abroad.

Mr. Macdonald, to enable you to speak as frankly as possible we have agreed that this meeting will be held *in camera*, what I call *in camera* number one, which means a transcript will be prepared and you will be afforded an opportunity of reviewing your remarks and then advise us

if you are prepared to have those remarks published later. If you would be prepared to start with an opening statement, Senator Cameron will lead off the questions following that statement.

Mr. Ian Macdonald, President, York University: Thank you very much, Mr. Chairman. Having ceased being a public servant and having returned to the academic realm, candour is no longer a problem as far as I am personally concerned in the public arena. I must say in that connection, I am not really, of course, very close to this subject at the moment, being more preoccupied with some internal affairs since July. This particular area in the ministries of which I was deputy minister was, during that period of time, finally consolidated into a branch, the External Activities Branch, which had the responsibility for coordinating all of the relationships of Ontario abroad and with the Department of External Affairs. I am in these remarks this morning, of course, speaking for myself, but undoubtedly my remarks will reflect certain of the attitudes that I developed as a result of ten years of experience in a provincial administration at Queen's Park.

I certainly agree with the statement in "Foreign Policy for Canadians" that Canadian external activity should be directly related to national policies pursued within Canada and serve the same objectives. However, I must stress that as far as I am concerned it is important to always begin with a distinction between national and federal. I think the background to this problem, as far as the Province of Ontario was concerned, and as far as my own experience was concerned, was based on the difficulty we sometimes had in convincing people in Ottawa that national policies included both federal and provincial activities.

I would like first of all to review some areas of provincial involvement in international activities as a backdrop to my commentary, and then describe some of the particular apparatus and how it worked, and some of the shortcomings that I feel still exist.

In the area of trade, as you know, Ontario's commercial activity abroad dates back to the opening of an Ontario office in London, in 1908, to promote trade in industrial and manufactured products, when the bulk of Canadian trade was largely in primary goods. The current importance of that office, which is also regarded as a springboard to Europe, is illustrated by the fact that Ontario currently, of course, produces over half the goods manufactured in Canada, and 82 per cent of all fully manufactured goods exported from Canada. The international trade activity of the other provinces, interestingly enough, also had early origins, but I suppose it is the 1960s that mark the period in which most provincial offices abroad were established, which again was a reflection of changing world trends and international concerns for access to markets. Within that frame of reference, the Ontario offices focus specifically on trade, tourism and industrial development,

and are the basis for initiatives taken abroad through a variety of manufacturing licensing agreements, joint industrial ventures and entry into new markets, contributing to both the provincial and national economies.

I think it is worth noting in passing that of Ontario's 16 trade offices located in 10 foreign countries, seven are found in American cities. Of course, the activities of these offices, as you know, vary considerably according to different provincial requirements and priorities, and Quebec's offices play a much broader role that reflects its cultural aspirations. Some provincial offices are also involved in orientation, counselling and recruitment of prospective immigrants, which is a very considerable activity on the Ontario scene, as a reflection of the divided constitutional responsibilities in that area.

The second area is that of treaties. Here, I suppose, the labour conventions case of 1937 has become the benchmark in the historical development of the provincial role in the implementation of treaties which Canada has signed when the subject matter is partly or wholly under provincial jurisdiction. In my experience, this is an area which operates smoothly, although somewhat slowly, and thereby there is some frustration sometimes through the agreed procedures. For example, Canada did not ratify the Vienna Convention on Consular Relations until all the provinces had signified their agreement, because terms in the convention related to such provincial matters as exemption from sales and property taxes. It took nearly ten years for all the provinces to agree, which I think points out, as I think you well know, one of the problems on the other side of the fence of provincial involvement. Indeed, as recently as my last year in office, I remember we were still wrestling with one or two cases of consular homes in terms of municipal property taxes and provincial-municipal relations in Toronto.

The third area is the area of conferences. Again because of increasing provincial desires to have a voice in matters closely related to their own constitutional responsibilities, the federal government has certainly involved the provinces increasingly more closely in Canadian contributions to international conferences. However, I must say that the extent of provincial participation is still somewhat arbitrary, and often depends on the maturity of an issue, by which I mean, it is sometimes late in the day when proper provincial involvement in an area in which they have competence and expertise is brought into the question. I think this can only be to the ultimate detriment of the strength of the position which Canada as a whole is able to manifest in those international discussions.

In the UNESCO and Commonwealth sponsored conferences on education, and the meetings of the ILO, Ontario, of course, has a long-standing involvement, and has therefore been represented on Canadian delegations, or has provided assistance during preparatory federal provincial consultations.

In such United Nations special conferences as the law of the sea conference the world food conference and in ongoing conferences like the "Agence," the process is still young, and I think more consistent procedures must be worked out over time to ensure that the provinces have ample advance notification in order to prepare for these meetings, to participate fully in the preparation of the Canadian position, and to devise the measures necessary for effective implementation of the resultant recommendations. That point is perhaps as important as any, because in

so many of these areas where the ultimate implementation will be the responsibility of the province, it is not only important from the province's point of view, but important in terms of good policy practice to have as early involvement as possible.

At education conferences, where provincial ministers have often headed Canadian delegations, the mechanism works well, and a system of rotation of representations has been worked out, elements of which might be used for other conferences as a greater number of provinces become involved.

I would like now to turn to bilateral exchange agreements for a moment. As you know, the provinces also participate in those bilateral exchange agreements which we have with France, Belgium, Germany and the USSR, dealing with educational, cultural, scientific, technological and industrial matters. The attraction of these agreements lies, of course, in the exchange opportunities they provide for specific provincial interests; and those are increasing, and they are important, I believe. For example, Ontario, at a time when considerable efforts are being made to broaden the bilingual capacity among teachers, has found the exchange of second language teachers and the summer youth exchange program with France exceedingly beneficial. However, partly because the agreements are of recent origin—most of them in the sixties and seventies,—provincial involvement today has been, on the whole, limited to information exchanged at periodic meetings of the various exchange commissions. It is not clear if the lack of results to date generally relates to the real problems of advancing exchange proposals through three bureaucracies, provincial, federal and that of the foreign country, or whether formal agreements are simply not the best way of managing exchange activities. Again, in a word, there seemed to be a disproportionate amount of administrative activity in relation to the human returns and involvement.

For example, the scientific community has already vast international networks, and more experiences and analyses will be necessary before conclusions can be reached about the value of those existing agreements to the provinces.

To sum up those particular spheres, I would say that while the activities I have mentioned do not embrace a complete range of provincial international activities, they do describe areas in which some federal-provincial consultative apparatus has been set up. A refinement of these procedures will certainly result in a more fruitful Canadian contribution in international affairs, and one which more accurately reflects the needs and interests of the constituent parts of the Canadian federation.

So far I have not mentioned provincial involvement in the area in which you are particularly interested, namely Canada-U.S. relations, and of course, our dealings with the United States are so intimately interwoven with our domestic life, particularly in Ontario, that I think they do constitute a special relationship under the general rubric of foreign affairs. In the field of trade alone, Ontario's total exports are of the order of 81.2 per cent to the United States.

Nowhere is the importance of the federal-provincial consultative process in the development of foreign policy more clearly illustrated. Without appropriate consultation and we have experienced this, foreign policy is transformed into crisis management, where pronouncements made or actions taken on one side of the border or the other, from one day to the next, produce outcry and uproar. A look at

the existing machinery for consultation between the two countries may lead to some prescriptions for the future.

The ways in which the provinces act with the United States and the federal government vis-a-vis current and continuing issues in Canadian-American relations depend, for the most part, on the issues themselves, and I think these can be summarized in three categories:

First of all, some issues are of a localized nature, and can best be approached by informal, province-state, administrative measures. Of course there is a great history of this in power relationships and international bridge relationships. They are not dramatic, and they are administrative, but they have been generally effective.

A second category, by their nature, demand more formal negotiation by the federal governments of both countries, necessarily accompanied by Canadian federal-provincial negotiations, which assist in determining the Canadian position. This has been true in certain manpower provisions, for example.

Still others, in a third category, call for broader international machinery, such as GATT, which then forms a framework for the conduct of Canadian-American relationships in that sphere. Again, provincial contributions to the formulation of the Canadian position in that category are usually provided by federal-provincial consultation, where the provincial role becomes that of one source of input to evolving a federal policy or position.

In the first category Ontario has had a significant number of successful working relationships with American border states. Ontario and Minnesota provide mutual assistance in the event of forest fires; to facilitate transport or commerce provincial and state governments have coordinated relations in highway load limits and registration exemptions; and there has been co-operation on highway projects and the construction of international bridges. Occasional meetings between the provinces and states bordering the Great Lakes have proven very useful in examining the range of common problems, and have at times given, I think, added impetus to the efforts of the federal government. I am thinking specifically of the conference of Great Lakes governors and premiers held in Toronto in 1970 to discuss common environmental problems.

Although environmental problems on the Great Lakes, have been under discussion by the IJC for some years, the conference of Great Lakes governors and premiers provided an impetus for the ultimate conclusion of the Great Lakes water quality agreement in 1972 between the two countries.

Out of this conference, which was a provincial initiative, province state contacts have now grown tremendously, and have greatly facilitated subsequent agreements on certain shared environmental problems. For example, the trans-boundary air pollution control agreement recently concluded between Ontario and Michigan will facilitate a co-operative program for the abatement of air pollution in the Detroit-Windsor, and Sarnia-Port Huron areas, and this agreement is in keeping with the objectives of both federal governments as well as those of the IJC. This kind of co-operation on mutual problems is outlined here as an indication of the effectiveness of provincial-state contacts in resulting matters of mutual interest. I think the development of those contacts, both formal and informal, helps greatly to relieve the atmosphere of tension which from time to time marks our broader relationships with the United States.

In a second area of federal-provincial consultation I think it is the federal-provincial consultative process that holds the key to the development of a foreign policy which will better meet the needs of the constituent parts of the federation. I think the federal government has certainly become increasingly aware in recent years of the need for consultation with the provinces on all matters affecting our domestic life; but I think what is needed is not only close consultation between governments to define and resolve major issues, but also a change of attitude to enable all levels of government, with their particular areas of expertise, and different perceptions, to bring their contributions to bear on aspects of the issues affecting them. Much certainly remains to be done with regard to our relations with the United States, where steps taken in Washington may have immediate ramifications on the provincial economy.

That brings me, then, to the question of information pulled from Washington, and you referred, Mr. Chairman, to the government of Ontario's policy statement as an objective to establishing a Washington office. That of course was directly related to some of the frustrations experienced within the government following president Nixon's announcement of the imposition of import surcharges in August of 1971.

The major reason for concern was simply that Ontario was not receiving from the federal government the information which it felt it needed to comment intelligently on U.S. proposals having important implications for the economic and social policies of the province. You might well say, "Why does the provincial politician not simply say that it is a matter for the federal government?" Well, the answer is that when each of those policies emanating from Washington has an indelible imprint on labour policy, on location of industry, on the export pattern and on the daily lives of everyone in the province, no provincial premier can afford to be uninformed or, indeed, can afford not to be intimately involved in any of those areas, and certainly cannot take refuge in the position that those are matters of concern only to the federal government.

The Alberta government made a similar suggestion in the fall of 1971, and while Alberta's statement provoked at the time no great reaction, the addition of Ontario's request combined with the tense political situation certainly did, I know, cause concern in this capital.

Ultimately,—and it fell to me on the Ontario side to negotiate this arrangement—an agreement was reached with the Department of External Affairs, which recognized the legitimacy of Ontario's particular information needs vis-à-vis the U.S. by establishing an information flow from the Canadian embassy in Washington on U.S. policies and developments relating to energy, the Auto Pact, trade policy and the Great Lakes. It also provided for regular or one-time briefings on current issues.

That machinery is now in motion and it certainly is a step in the right direction. Officials both in external affairs and in the Ontario government must work to improve the quality of the information being transmitted, and, equally important, to keep it responsive to changing needs.

I think the basic purpose of the information flow must be to serve as an advance warning device on developments that bear on provincial concerns. The provincial ministers want to have some intimation of what is coming rather than to hear later the explanation for what has taken place.

This information flow, I think, is a small gain toward reducing the reactive nature of Canadian policies vis-à-vis the U.S., and again I think that it is important for the federal government that provincial governments be well informed so that they are not taking public positions which tend to exacerbate tense relationships between Ottawa and Washington. Rather, they could take a more positive public posture and help to contribute to the resolution of those tensions and toward more meaningful contributions to the many intergovernmental forums where our relations with the United States in areas such as energy, national resources, finance and trade are issues.

In conclusion, then, Mr. Chairman, let me make some general observations—first of all, on Canada-U.S. relations and then on our federal-provincial relations, generally. First, the effectiveness of the Canadian machinery developed to approach specific issues in Canadian-American relations has certainly varied according to the period of time the issues have commanded public attention. Those of more recent origin—energy, for example—have posed the greater inter-governmental problems.

In contrast, technical problem such as Great Lakes water quality, which have existed for a number of years and which are mutually imperative to resolve, have diminished as policies and coping mechanisms have developed. Very good use has been made of the long-standing structures of the International Joint Committee.

Again in contrast, agriculture, for example, because of its more recent origin in policy debate between the two countries, has been less successful in its resolution. I think there is an urgent need for federal-provincial governments, through increased consultation, to examine the implications of the third option for both national and provincial perspectives and to develop a firm and coherent policy base with regard to the larger question of the direction we wish to take in our relations with the U.S.

If I may just close with one or two quite personal comments based on some recent experience of considering this question from outside one's own borders. During the last two months I was part of a group of economists which made visits both to Mexico and to Brazil. It was my experience that the people we met were quite well informed about Canada in general, but they were amazed to learn of the extent to which we functioned under a decentralized federation, and to learn of some of the implications of this for our foreign policy and its operations.

In the course of preparing for that first visit, which was co-sponsored by the Canadian Institute of International Affairs and the Department of External Affairs, it was reported back to me that one senior official in external affairs was quite upset to learn that a provincial civil servant was part of a group going to Mexico on these subjects. How could a provincial person have any comprehension of national foreign affairs policy? The answer, of course, returns to that point I made at the beginning: that this is certainly a national matter, not a federal matter. If we were all today, at this moment, standing outside the borders of this country and looking in at our constitutional arrangements and were to ponder over industrial strategy, energy policy, commercial policy, education-culture, public finance, agricultural policy, labour relations and corporation laws, immigration and manpower, we would realize that all are matters of provincial concern, but all have a deep imprint on our foreign policy requirements. It is not very difficult to see why the provinces have more than a

yearning, but indeed a responsibility, to make an effective contribution to this process.

I have become a little concerned over the years at the implicit unitary-state syndrome one sometimes encounters in Canada, which I think is the product of a deficient educational system in teaching young people about the nature of the Canadian federation; this is fortified by certain centralist yearnings in certain areas of the media. I think this has not only made rational public discussion of our federal-provincial problems rather difficult, but it has tended to foster a suspicion about the provinces rocking the boat or creating problems for "the" government, which is normally taken to mean the central government. This is increasingly true, I believe, in recent years in the field of external affairs.

In any of our embassies abroad a picture of the governor general is normally to be found, reminding us that our representatives represent Canada in all of its parts and in all of its sovereign governments, and when we speak of the provincial role in this area of relations abroad, we are talking about a province rather than a provincial foreign policy. We are talking about an area of responsibility under the constitution for which the foreign representatives of this country have a responsibility to carry, both for the federal and for the provincial government.

As all provinces have foreign relations of one kind or another, the issue in our federal state is not which level of government has the main responsibility, but now the federal government can integrate the views of the provinces into Canadian foreign policy.

In this regard I suppose what has struck me most forcibly has been the deficiency of institutional devices to consult in this realm, and I must say in all candour that in too many cases there is an apparent unwillingness on the part of the federal government to consult until pushed or, at best, to consult on an extremely short notice. I think two things are required then, one on the federal side and one on the provincial side.

On the federal side I think we need more openness, and I think this is related to our inheritance of the so-called diplomatic way of doing things which is part of the international realm. The process, I think, is simply too secret and too slow and in this day and age the means employed too often do not justify the results. I think the successive lack of openness is an impediment to the fuller integration of the various viewpoints across the country. After all, is foreign policy really so different from the many, many other issues of intergovernmental relations which are discussed among governments every day in this country? Why, in the foreign policy realm, should there be such a notable reluctance to divulge information fully and freely and to be so acutely conscious of style and protocol, too often at the expense of substance and particularly at the expense of governments' being able to act in concert.

Turning to the provincial side, I think the provinces must equip themselves to put their capacity where their aspirations lie. The provinces have indicated their concern and their responsibility to make an effective contribution to foreign policy, but too often their activities have stopped at that point and they have not equipped themselves either in terms of staff, interest or priorities to make an effective and intelligent contribution to the process. In recent years some provincial governments, as I mentioned in the case of the office of external activities in Ontario, have made some significant effort to play their part, but I think we have a long way to go.

The Chairman: Thank you, Mr. Macdonald. On behalf of my confrères and myself I should like to thank you for the obvious care you have taken in preparing your notes in such a concise fashion, and certainly, for my part, your remarks have pointed up the pertinence of our consideration of provincial viewpoints in any study of Canada-U.S. relations, living, as we do, in a federal state. And now I shall turn the questioning over to Senator Cameron.

Senator Cameron: Mr. Macdonald, there are so many facets of this discussion opening up so many areas of questioning that it is hard to know where to begin. You mentioned that a number of provincial governments have set up departments of intergovernmental affairs. Do you know how many provinces have such departments at the present time?

Mr. Macdonald: It depends on how you define a department. As I recall the situation it is this: Quebec has a full-blown department of intergovernmental affairs, as you know, and Ontario has a division of intergovernmental affairs in an omnibus department of Treasury, Economic and Intergovernmental Affairs. Alberta also has an office of intergovernmental affairs headed by a deputy minister reporting directly to the premier. British Columbia, Saskatchewan and Manitoba each have units within the premier's office with a designation of intergovernmental affairs, and now New Brunswick, Nova Scotia and Newfoundland each has an officer with a title "Co-ordinator of Intergovernmental Affairs" in the premier's office.

Senator Cameron: Do you think it would be useful if the federal government established a somewhat more formal machinery for dealing with intergovernmental affairs? For example, Alberta is dealing with various aspects of trade relations with the United States, and Ontario is now in the same situation. I could be wrong on this, but my feeling is that they are doing it without too much consultation among the provinces. Do you think there is a role for a federal office of intergovernmental affairs that might work closely with the provincial offices which exist and others that are likely to come into being?

Mr. Macdonald: There is a strength and a weakness in the creation of machinery, and I suppose this is the government's predicament. As I look back on my own ten years of being heavily involved in the intergovernmental area, I think my criticisms were of two contradictory kinds. The problems that resulted because we had excessive machinery, and the problems that resulted because we did not have enough. I think that in many areas these two extremes are brought together by the increasingly horizontal nature of public policy today, in some of the older established ministries, the Federal Department of Agriculture and our own Ministry of Agriculture, for example, where relations were always extremely harmonious and extremely effective. Then you come into areas where you have had more recent impact such as energy, where not only the dimensions of the problem but the lack of a long-term coherent consultative process has contributed to the difficulty. I may have sounded a little harsh in my remarks, perhaps, about the federal government in external affairs and I did not mean to imply either a political or personal deficiency on the part of those involved. I wanted rather to suggest that habit and the attitude have not been developed over a number of years, because I think, understandably, that the attitude in the capitol had simply not recognized the extent to which provinces wished to be involved and were entitled to be involved in this area, and, of course, the areas under provincial jurisdiction which

have an external manifestation have become more important in recent years. So a certain catching up is required. I know that from the federal end—and this is part of the problem—there is always extreme frustration as to whom to deal with in Ontario, for example, or in any other provincial government, and I know that in the case of visits by people from foreign countries or groups coming or certain international activities, often the problem was that the federal government was frustrated and their officials were frustrated by simply not knowing with whom they should deal in the provincial government. And then when they did come to deal with them they found that there was not a coherent policy there. When we in Ontario a few years ago established an office for external activities it was given two roles, one, of co-ordinating Ontario's external activities within the Ontario government and the second, being the locus of contact with the Department of External Affairs. I know that this was a source of great rejoicing for the officials in the department here who finally had someone they could call, speak to and deal with. I think this was very healthy indeed.

Then there is the final question of each of those bilateral relationships being co-ordinated across the top. In 1965 when I joined the Government of Ontario, this was a matter perceived by the premier of the day, Mr. Robarts, as a matter of pre-eminent concern and I was given the task of establishing the first federal-provincial secretariat. We literally started from the ground in that process. We had three or four very young, very inexperienced men and women, right out of university, and in order to compensate for their youth and inexperience the premier established the Ontario Advisory Committee on Confederation to which you referred, Mr. Chairman, in the introduction. This was a group of 16 quite distinguished Canadian academics and others including your colleague Senator Forsey and the present Chief Justice of Canada. As a relatively young man at that time I had the awesome task of presiding over that body, a task you can appreciate, I am sure. For the first time, it gave the provincial government under Mr. Robarts an opportunity to see all of these problems in both an intergovernmental and a horizon context.

The question is, I suppose, whether there should be a full-blown agency in Ottawa, a central agency or central ministry. It was my experience, both institutionally and personally, in dealing with Gordon Robertson and his staff, that they did a very effective job in coordination, and of course had the support of the Prime Minister for it. Whether it was explicit or not I would not presume to say, not knowing the inner working of the federal government, but I did from time to time feel that—I am going to get lost in this metaphor—the departmental tail came to wag the central policy dog. I guess that is the point I am trying to make. From time to time it might have been better if there was a little more rigorous intergovernmental perspective over some of these particular departmental areas.

Senator Cameron: It seems to me that we are heading into an area where there is a need for much more effective machinery between the federal government and the provinces, vis-à-vis taxation, the development of natural resources and so on. A number of provinces—I am not sure how many—have departments of intergovernmental affairs, but it seems to me that there is a need for some more formal agency within the government structure in Ottawa to work with these provincial departments with a view to evolving a more closer co-ordinated federal-provincial stance. I do not know what the prospects of bringing this about are. There may be some resistance on the part of

the people down here, but I think it is inevitable, it must come.

The Chairman: Perhaps I could interject here for a moment and ask Mr. Macdonald in that connection if he has any comment on whether, if such a development were to be taken by the federal government, it would fit within the Department of External Affairs or be a separate department?

Mr. Macdonald: I would want to be quite clear on this. As I understand Senator Cameron's point, he is referring to the co-ordination of the overall context of intergovernmental affairs, not just the foreign policy dimension?

Senator Cameron: No. There is a foreign policy aspect. There is also a very strong commercial aspect.

Mr. Macdonald: I think the Department of External Affairs in its machinery is quite competent and adequate to deal with the counterpart organizations, such as they are, in those provinces where they exist. I think what is probably needed in more provinces is a counterpart of the Ontario Office of External Activities, so that the Department of External Affairs in Ottawa has a counterpart agency to deal with in each of the provinces.

In the overall sense, I think it is certainly important to devote more attention, in both the federal capital and the provincial capitals, to the broad overview operation. This becomes a very elaborate mechanism, I know. Take the commercial field; suppose one is dealing with some subject like the auto pact. Within the federal organization you have the three principal ministries—external affairs, finance and trade and commerce; within any province the provincial department of trade and industry and the provincial department of treasury or finance will have an input to make. At some point there needs to be a summit operation where the total intergovernmental view is taken and coordinated. I certainly think that process is as important in Ottawa as it is in any provincial capital.

Having said that, one is also faced with the problem of responsiveness. There are a very large number of people and a very large number of agencies to go through, with the attendant danger, which was always a source of concern to me, that the bureaucracy becomes more heavily involved than the political side.

I know that is not a very satisfactory answer. I recognize the need, but I am also a little concerned about the balance of getting too much machinery.

Senator Cameron: I think it is true that we are just in the process of evolving some policy in this area, and I think it is long overdue.

Senator Carter: Mr. Macdonald, as I listened to you this morning I got the impression that you would favour more decentralization of authority. Is that a correct impression?

Mr. Macdonald: I am not sure I am in favour of more decentralization, no, but I would like a greater recognition of the extent to which Canada is a decentralized federation, and the demands that imposes on us for more effective provincial input to federal policy making. I would not go so far as to say I would want to decentralize further at this time.

Senator Carter: You were a little rough on the Department of External Affairs. You may have explained this to Senator Cameron, but if you did I missed it. What machinery does Ontario have for intergovernmental affairs?

Mr. Macdonald: It is a large division in a central ministry, the Ministry of Treasury, Economics and Intergovernmental Affairs. That division of intergovernmental affairs has the broad co-ordinating responsibility for provincial policy with the federal government on the one hand and our municipalities on the other. It deals with the totality of the three levels of government.

Senator Carter: But what about the other provinces and Ontario's relationship with the other provinces?

Mr. Macdonald: It does that too. That division coordinates all relations with the federal government, with the other provinces and with the municipalities, all three levels.

Senator Carter: Several years ago the Prime Minister set up a provincial desk, to have direct contact between the Prime Minister's office and, I presume, the premier's office, or the provincial government anyway. We have not heard much about that. I think that is in the process of being changed. It apparently did not work very well. Can you give us any idea of what happened?

Mr. Macdonald: When that process was established in the Prime Minister's office, as I recall, as opposed to the Privy Council Office, there was a so-called Ontario desk man. That officer appeared at all federal-provincial conferences where Ontario was involved, and I believe his responsibility was to consider and report back on the various policy matters that arose in the discussions which bore directly on Ontario. Frankly, it was always my impression that that desk had a very difficult role to play, because it was neither fish nor fowl. It seemed to fall midway between the analytic responsibility of the bureaucracy and the political responsibility of the Prime Minister's Office. Certainly in terms of our contacts and our relationships, it was not a very effective body. It was not an ineffective process; it was just something that did not feature very heavily in our deliberations and our considerations, in contrast to the very strong ongoing regular relationships with the various departments and with the Privy Council Office group.

Senator Carter: What kind of machinery would you advocate, in view of your experience in these matters?

Mr. Macdonald: In a provincial government?

Senator Carter: Between the federal and provincial. One of the criticisms was that the provinces do not have sufficient advance warning, that they only hear of things at the last minute and do not have time to prepare. I have heard that criticism raised a number of times, and I have also heard the federal side of it. The federal side of it is that they do not get to know about it either. They say they only get informed at the last minute about things, and that there is not enough time to make adequate preparation. At least, that is the answer that has been given to their criticism. How valid is it? Of course, I am not in a position to know, but there does seem to be some validity for it in some cases.

Mr. Macdonald: I suspect that it is a valid criticism. I would not want to suggest that the slowness with which information filters down from the federal ministries to the provinces has anything of a conspiratorial character about it. I certainly think it is part of the process, and is due to the number of people involved and the many responsibilities they have to discharge. To add another dimension

involving the provinces certainly adds considerably to their responsibilities.

The answer is just not simply to add more people, because often the information you are speaking of is of the type that is only going to be responsibly handled, or comprehended, by a very small group of people. I would say, from my experience in government, that 9 times out of ten failures of communication were not matters of malice or indifference but rather, matters of the clock and the difficulty of coping with all that had to be coped with.

Senator Carter: You said the Prime Minister's office was, a it were, a hybrid creature that had two faces, a political face and a communications face, I suppose one might say, and that these two very often were not compatible. Would you advocate two desks in the Prime Minister's office?

Mr. Macdonald: No. I frankly simply did not see the need for or purpose of those desks in the Prime Minister's office at all. If the Prime Minister wants a political watching brief, that is a matter for him to determine, and handle in whatever way he thinks appropriate; but if you are in provincial administration and you are a civil servant, responsible in a certain area, you know how to deal with your counterpart in the Privy Council office, or anywhere else, from your civil service position. The rules of the game are well established, of course. If someone was injected into the system and into the intergovernmental machinery, from the Prime Minister's office, who was a prime ministerial appointee, and was dealing in areas which are normally of a governmental description, but making the civil servants a little uneasy because they are also of a political nature, then that is an uneasy relationship, and one that we did not find very satisfactory.

Senator Carter: Can you tell us how this arrangement is working out in Washington with regard to the Ontario government representative in the Canadian embassy there?

Mr. Macdonald: If I might go back, Mr. Chairman, just for a minute to that period in 1971? As you know, at the time of the provincial election in 1971, one of the positions taken by the government of the day was the establishment of an office in Washington. A number of us, including myself, had grave doubts about either the desirability or the suitability of that proposal. Subsequently the government's position was softened to a second position, and that was to have an Ontario desk man, as it were, in the Canadian embassy in Washington. Again, I will be frank to say—and I hope this is not improper in terms of my previous responsibilities as a civil servant—that it seemed to me that that position would suffer some of the same disadvantages as had the desk position that we were talking about a moment ago. I would doubt whether the community in Washington would really know how to treat that man within the context of well established procedures, and he might find himself very frustrated indeed, so that we might find ourselves frustrated in turn. My own position on this was simply that we must insist upon—and that is why I have spoken on the subject as strongly as I have today—the proposition that the responsibility of the Department of External Affairs is to represent Canada abroad in terms of all its people and all its governments. In our federal system it is our representative abroad for the federal and the provincial government as well, and if you do not like that system, then you are going to find the provincial governments saying, "Well, we are going to have

to have our own representation abroad," and then you are into that mare's nest. It therefore seemed to me that of the three solutions, an Ontario office, an Ontario man in the embassy, or the embassy providing that effective service of the provinces as well as to the federal government, the latter was far and away the best way of doing it.

The problems that arise are practical ones of the following kind: In the first place, do you send everything under the sun by way of material out of that office, or do you select? Secondly, if you select, who determines what is really of interest to the province or is not of interest, particularly in a fast-changing field; thirdly, how do the people in that office develop the capacity or the skill to determine, from the great maze of information, and in view of the atmosphere in which they are absorbed, what is going to be of interest, and what is not going to be of interest to ten different provinces with very different concerns? Fourthly, how, in an ongoing way, in terms of telephone conversations or communications, do the provincial people keep quickly in touch with the local scene, bearing in mind that our provincial people, for that information purpose, did not deal directly with the people in the Washington office, but rather, the material from the Washington office went to the department here in Ottawa, and then back down to Ontario?

My impression, towards the end of my time at Queen's Park, and because of other preoccupations I was not directly, in any day-to-day sense, involved in this, was, from what I saw of what came to me, and from my discussions with my colleagues, that they were reasonably satisfied with how it was working out, and that they would continue to be diligent in pressing for some improvements, as they should, not, again—and I want to be very clear on this—because they were not getting co-operation from the external affairs people in Washington, but because it was very difficult for the people in Washington always to know exactly what the province wanted.

This is why I made my concluding point, that it is not good enough for the provinces just to point to the shortcomings of the Department of External Affairs. They have got to equip themselves to be able to indicate to External Affairs how they can help the provinces.

Senator Carter: Have you got to follow the channels both ways? If they want to contact you, do they have to contact External Affairs? If they want information do they have to come to Ottawa, and does Ottawa have to ask the Ontario man in the embassy, and so on?

Mr. Macdonald: Those are the rules of the game.

Senator Carter: Is that necessary?

Mr. Macdonald: Those are the rules of the game, but again, in an ongoing, regular way, that works for 99 per cent of the time. I suppose if I were in my previous position, and the premier said he was very anxious to know about issue X, Y or Z, my instinctive reaction would be to call up someone in Washington, and I would undoubtedly know someone in the embassy and say, "What is your impression about this? What can you tell me about that?"

I think, for the most part, in that way you would get a direct answer. So I do not think it is a thing that can be categorically defined in that way. For the most part, however, it would work through that kind of channel. At the same time, I do not think that that would ever preclude, from the point of view of human relationships, any direct contact.

Senator Carter: This may not be a fair question, but can you give us any information as to how the United States handles its problems? What intergovernmental machinery exists between the various states, and how do they handle their problems with the federal government as compared to our provincial-federal relations?

Mr. Macdonald: It has been my impression, from what I know of the inter-governmental work which goes on there, and from discussions with the advisory committee on inter-governmental relations in Washington and with a number of other people there, that this situation makes the Canadian experience look like a model of good inter-governmental affairs. Of course, obviously, it is enlarged by the dimension in terms of the numbers of states they have to deal with. I think the attitude is not nearly as good, and I have always had the impression that the political dimension—I mean the party political dimension—has always been much more important there in inter-governmental dealings.

One thing that has always impressed me, and I think it was one of the great strengths of our federal-provincial conferences and federal-provincial negotiations, was the extent to which issues tended to override party political differences of the two groups in power. I was often intrigued in federal-provincial conferences by the extent of difference that could exist between parties of the same stripe across the table, and the extent of harmony that could exist between parties of quite different social philosophies. For example, on some questions of taxation and fiscal policy, I was often intrigued by the Ontario-Manitoba, Tory-NDP axis, based on an obviously different political philosophy base.

I think that was a very good thing. It was one of the strengths of good policy-making in Canada. I believe that in the United States there is little formal machinery. There is an annual conference of state governors, but I think it is nothing like our annual premiers conference where there have in recent years developed some rather good inter-provincial arrangements.

For the most part it is hit and miss. It is also complicated by the extent to which the federal government deals much more directly, as you know, with the municipalities and the local governments.

The Chairman: On a point of clarification, with respect to the man who is established in our embassy in Washington to seek information for the Government of Ontario and to report it, would that be his exclusive task?

Mr. Macdonald: No. A variety of people in the embassy, from their specialized perspectives, would be contributing to material that he would be co-ordinating, and he would be doing that job as part of other responsibilities. It is by no means a full-time job.

The Chairman: If other provinces wanted the same sort of man in our embassy in Washington, would you visualize this one man serving several provinces or would it be necessary to have one man per province because of the varying regional positions which the provinces take across the country?

Mr. Macdonald: Well, sir, I guess it would depend really on the extent to which the load developed. My impression of what we required and what was being done would be that a single officer could certainly handle at this time the requirements of all of the provinces. He would have to be, I think, a particularly skilful and senior person, in the sense

of having an appreciation of and being able to sort out the different regional interests. Then, over time, if this requirement grew, of course he would have to be fortified by additional resources. But I do not think now, or perhaps even within the conceivable future, that one would think of having ten men in the Washington office, each exclusively devoted to a province. I think we are a long way from that need.

The Chairman: There is not that volume of information required.

Mr. Macdonald: Nothing like that.

Senator Carter: Does the Ontario man in the Washington embassy initiate things on his own? Can he say, "Well, this is something that my government should know about," and take action to get it to his government, or must he wait until the Government of Ontario tells him it wants a piece of information about a particular matter, in which case they would contact the External Affairs department and External Affairs would contact the embassy and the embassy would tell him that the Government of Ontario wants that information and he would then go to work on it? Or can he simply initiate it himself and say that this is something his government would want to know and therefore take action?

Mr. Macdonald: In fact, in the normal way, the person with that responsibility in the Canadian embassy in Washington would initiate. He would be casting his eye and focusing his ears in the direction of things of interest to the provinces, and in the normal way he would be passing that through on a regular, on-going basis. It would really be more by exception, I think, where the province would initiate a specific inquiry or a particular request to him. The normal thing would be his on-going filtering process.

Senator Carter: He is on the general staff, I take it. He is not in any division, the commercial division? He is not like an attaché?

Mr. Macdonald: No, he is part of the general staff. I don't know the classification officers sufficiently well to know what his designation would be in the system, but he is part of the general embassy staff.

Senator McElman: If I may, I would like to comment on your suggestion that one officer in the embassy staff in Washington might represent the interest of all of the provinces. Such a person would require the wisdom of Solomon, to say the least, and he should be the prime minister rather than be down there.

Going back to the announcement made by Ontario that it proposed to open its own office in Washington, could you explain to us how that came about? Was it the result of long-time thinking at the official level in Ontario, or was it more of an immediate reaction to the Nixon proposals and the dreadful consequences which many people thought would flow from those proposals?

Mr. Macdonald: Well, there are two things: First of all, it was not, in my impression, a long-time or a long-held aspiration of the government. It was primarily a response to the serious concern and consequences of a particular impact on the Ontario economy in terms of the difficulties, and in terms of DISC and in terms of the import surcharges and in terms of the sort of general economic stance of the United States administration at that time. Those events were the source of concern.

The origin of the notion within the governmental structure was clearly at the political level, in this sense that the premier and his ministers at that time were being besieged daily by members of the business community, members of the trade union community and all the constituent groups in Ontario—particularly in those areas which, in the perception of the day, were likely to be seriously hurt—Oshawa, Windsor and the automotive industry—who were saying to them, “What is happening? What is the impact going to be on us? What are you going to do about it?” There was very serious concern about how to answer those questions responsibly.

As I say, external affairs is properly the responsibility of the federal government, but any provincial premier who is being asked “What is to going to do to our labour? What is it going to do to our employment? What is it going to do to our industrial structure?” and so on, wants an answer.

I know that was a deeply-motivated concern, and the consequences of the genuine frustration of that moment were to say, “We are not getting served. Well, we are going to have our own man. He is going to tell us. He is going to keep us on the end of the phone every day.”

Senator McElman: Prior to the announcement, was there any discussion between the ministers or between the Prime Minister of Ontario and the ministers in Ottawa?

Mr. Macdonald: To my knowledge, no.

Senator McElman: It was a highly reactionary thing in the circumstances of the loan.

Mr. Macdonald: I think it is fair to say that, yes, and, as I say, I do not want to leave the impression at all that it was something of a politically opportunistic nature, because I do not believe that it was. I believe it was based on a genuine concern, a genuine anxiety and genuine frustration.

Senator McElman: Carrying that through to its logical conclusion, I do not think anybody would differ with you on the question of the establishing of such offices in Washington because, so far as the Canadian voice is concerned and with the provinces growing in strength within the constitutional structure, it could become highly divisive, if it should reach that end. But let us look at the alternatives that have developed. Ontario, in effect, has its deskman in Washington although he is an employee of the federal government. Does he have a close liaison with the Government of Ontario? Does he spend some time in Toronto getting the views of the Government of Ontario?

Mr. Macdonald: No, sir, he does not. Certainly at the time I left, and I do not think it has changed since because I inquired about this of those who are presently responsible before I came here, it has not developed to that extent. It is simply the passage of paper and the passage of information, and I think this is why it is very interesting to reflect on where the matter might go. As you were saying, Mr. Chairman, with respect to 10 provinces, if the process is to develop and mature, then, I think your line of questioning would be quite appropriate—that that man should spend a good portion of his time at Queen's Park and he should be absorbing and digesting what the political and public service people there feel and then going back to Washington and tailoring his responsibilities accordingly. He should be specializing a little more in his knowledge of the Ontario scene. If you are really going to

do this in a full-blown mature way, certainly one man is not going to be expert in any way, either by time or capacity, in 10 provinces. I do not discount that possibility, but I would think and I believe that the need is yet to be established.

Senator McElman: What terms of reference were devised for that Ontario man in Washington and how were they devised? Was there extensive discussion between Ontario and Ottawa? Had they literally laid out specific terms of reference within which he could operate and beyond which he could not go; and, if so, how restrictive are they or how wide open are they?

Mr. Macdonald: The discussions began, as I recall it, around 1972. I had a meeting first with Mr. Ritchie and Mr. Gordon Robertson in Ottawa and then with the Ambassador, Mr. Cadieux, in Washington and we explored this question as to what it was we needed and how it could best be served. Following that an officer of the Department of External Affairs in Ottawa, the regular officer in the area that deals with provincial matters, was assigned this task and there were a number of meetings thereafter between him and members of the staff of my then ministry at Queen's Park. The arrangement drawn up was not a highly detailed, codified one; it simply dealt with the general objectives and that was, as I said, the flow of information from Washington through the normal federal mechanism in Ottawa which would filter down to Queen's Park—that is, so far as the information which we required was concerned—as it presumably does here to other departments in Ottawa and that in turn we would, through our contact man in Ottawa, constantly indicate the extent to which we felt the information was deficient, or the extent to which we felt additional information would be required. As I recall it there was a general understanding—I do not think it was a formal agreement—to formally review this process periodically to see if it was satisfactory in its arrangements, and to see if it should be enlarged or changed in any way. But it was much more on the level of an understanding between the counterpart officials than a kind of codified apparatus of agreement in operation.

Senator McElman: I should imagine that in those discussions between yourself, Mr. Robertson and Mr. Ritchie the question had to arise as to the precedence and qualities of such an arrangement. Were there fears or apprehensions expressed at that time that this could lead other provinces to seek similar arrangements, and where the end run of this might be?

Mr. Macdonald: We certainly discussed that, and I do not think that those with whom we were dealing had any illusions that this arrangement for Ontario meant an equal opportunity for the other provinces if they wished to take it up. Certainly it was made clear at the time that this arrangement would be available to any province who sought it, but my impression of the feeling in Ottawa at that time on the part of those with whom we discussed this was certainly that it was the preferable route to go rather than to be continually under pressure for independent offices and the costs that that would involve. I know that in a bread-and-butter sense the Canadian Ambassador at the time expressed concern, as we all do in the public service from time to time when we are having problems coping with the responsibilities we have already with the staff available to us without adding to our difficulties. But at the same time he himself was very generous in his attitude to our desires.

Senator McElman: Did you say "the preferable route to go"?

Mr. Macdonald: Preferable to having separate provincial offices.

Senator McElman: Were there other devices or mechanisms discussed at this time—that is, other than these two—for the solution of what Ontario felt to be its problems?

Mr. Macdonald: Yes, we did discuss at the time the possibility that members of the Ontario Cabinet and/or members of the senior public service should go from time to time to Ottawa or to Washington or to both for briefing sessions and discussion sessions with the people on the spot about current intelligence, current developments, current trends, explorations of the way of thought or the way in which policy was being developed in the administration and the potential consequences for Canada and so on. The fact that that has never been taken up may say something either about the current pressure on provincial politicians or their priorities, or both. But that particular device has not been employed.

Senator McElman: From your own experience and what knowledge you may have of the relationship since you left the ministry, what is Ontario's reaction to how effective this man in Washington is on behalf of Ontario?

Mr. Macdonald: I was satisfied with what was happening, and I believe those who are currently in the ministry are generally satisfied with what is happening. Any frustration they have is certainly, I think, no reflection on the people, but more on the system. It is part of the inevitable dilemma I mentioned earlier. There is a feeling that they get an awful lot of information that really is not very helpful or relevant. If it were so finely filtered, they would have the concern that perhaps something was going on that did have provincial relevance that the person in Washington, with the best will in the world, might not recognize as having Ontario provincial relevance, so the lesser of the two evils was to cope with the considerable volume of material and do the selective process at Queen's Park.

Beyond that, I have not heard any criticism, perhaps because another thing happened along the way, which was healthy and partly the outcome of these discussions. I believe there is a much closer consultation now, and much fuller co-operation, at the official level between the Department of External Affairs and Queen's Park. This is one of the things that simply happened as a part of the human process as a result of these formal discussions, that a few people came to know one another better, to appreciate each person's need a little better and simply to have a more natural responsiveness to passing on information, advice or suggestions. I think that is to the good.

Senator McElman: At one point I think there was discussion about Ontario having one of its own senior officials attached to the embassy in Washington. Is that correct?

Mr. Macdonald: Yes.

Senator McElman: What basic objections did the federal people have to that?

Mr. Macdonald: To be fair, they did not offer any objections, as I recall, from their point of view. They said, "If you are determined to have an Ontario man in Washington,

we would certainly prefer that he be based in our embassy. If you are determined to have him, we will make provision for him, space for him, and help him in any way we can, which would be preferable to having a separate Ontario office in Washington. However, I think you will find it will be very difficult for that man to be effective, because the people in Washington with whom we are dealing on a daily basis, in a regular way, in a formal manner, will not know how to treat that man, and you cannot be sure that he is going to get information. Again, unless he has unusual contacts or is unusually gifted, he is not going to be able to get any more information or any better information than our people can give you. Therefore, we think you would be better served by us providing the services to you." As I say, with that I fully agreed. Again, my own personal feeling was that it could be, from the point of view of general information flow, quite a waste of public money having an Ontario man there in that role. That is a little different from saying that I think it would be very useful for some provincial civil servants to have experience in some of these sensitive posts.

One of the things I was always keen on for my own staff, but which never materialized because we were coming into a period of constraint on resources too, is that I would have liked to have a couple of my young economists spending six months or a year of their career stationed in London or Washington, attached to the embassy there, living and working with and knowing the Canadian representatives there, and then come back to our staff, using that as part of a general enrichment program and part of the appreciation of their own general understanding, which I am sure they would contribute to us in turn. However, that is a separate thing, and something we never really got on to.

Senator McElman: I am sure that would be of real interest from an experience and educational standpoint. I am sure the federal people must have reached the point that if Ontario had its own man under the roof of the embassy this might lead to misunderstandings, that in some circumstances he would be regarded as not a Canadian official with whom people would want to deal for fear of putting the federal nose out of joint. On the other hand, perhaps he might be looked upon as more of a Canadian official than he really was, which could also lead to a dangerous situation.

Do you believe, from your divorced position from governmental activities, that any of the three routes that have been talked about and experienced is preferable to perhaps the establishment of a federal-provincial secretariat on foreign affairs in Ottawa, a continuing operation? What would you think of such a proposal, where each and all of the provinces would have someone responsible here in Ottawa, representing them in consultation with the federal government, rather than individual representation?

Mr. MacDonald: It is an interesting idea, having a provincial ambassador in Ottawa, as it were.

Senator McElman: In effect, I suppose, it could be so characterized.

Mr. Macdonald: I suspect that someone from Ontario is at least well equipped to answer that in terms of experience and contact. Toronto is 50 minutes from Ottawa with easy telephone conversation contact. We considered this question quite often, whether we should have an Ontario man in Ottawa, and if so what his role should be. Our own feeling was, first, that we were satisfied with the inter-departmental relationship that existed between the corre-

sponding ministries, agriculture to agriculture, environment to environment; secondly, we were pleased with the way the new arrangements with the Department of External Affairs were developing, since we had established our own Office of External Activities and now had a bilateral counterpart; thirdly, we were satisfied with the general overall federal-provincial contacts that we maintained with the staff in the Privy Council Office, and which Gordon Robertson and I, when I was there, in both a personal and institutional way, had developed very closely. If I were sitting in Edmonton or Charlottetown, I suspect I might have a different view of it, in the sense of immediacy, the sense of readily being able to come and go. I know that I sometimes had the sense that half of our civil servants at any point in time were in Ottawa, and we somewhat facetiously toyed with the idea of having an Ontario department in Ottawa when the hotel bills were running so high. That is a different situation, as you well know, for other parts of the country. The way in which other parts of the country perceived their need might well have been different. As you know, some of the provinces from time to time have maintained an official presence in Ottawa for information purposes and for purposes of discussion. At the time I was leaving the ministry—and I am not sure if anything has been done about this; I rather doubt it—we were thinking of attaching someone to the regional office in Ottawa of the ministry of treasury, economics and intergovernmental affairs. We had five regional offices, largely for municipal purposes, and one of them happened to be in Ottawa. We were talking quite seriously about having a man in that office who, again, would have a kind of general, roving commission, talking to people, picking up ideas, observing the scene, and so on; but we always had in mind that we would not have a single, or formal, presence, that would interfere with the normal bilateral relationships between the departments, and in the case of Ontario I think that was right. I think one would need to ask people in the other provinces how they felt about it, and I suspect their answer might be a little different.

Senator McElman: You said at the outset that there had to be some delineation between what Ottawa might perceive to be in the federal interest in a particular matter, and what was the national interest. You suggested that the two could differ quite appreciably. The same thing applies in reverse, of course. For a number of years I was party to federal-provincial relations and conferences, and it quite often developed that on what appeared to be, from the Ontario viewpoint, the federal or the national interest, there was great disagreement with the other provinces as to whether it truly was. Would you think that the fact of an Ontario desk, in effect, in the Washington embassy, would become a suspect situation in the eyes of the other provinces over a period of time? Would you think that they would feel that perhaps the interests of Ontario might be receiving special treatment? It was our understanding, of course, that there are guidelines within which that person would operate informationally, and so on, but would you think that it might be considered that that person might be providing Ontario with an extra edge that no province was entitled to?

Mr. Macdonald: Well, Mr. Chairman, I certainly agree with the senator about the problem that Ontario labours under vis-à-vis the provinces in this matter, and I think it is understandable. We have that concern also, and I could not tell you in all honesty that we systematically explored with the other provinces what their attitude would be to our moving in that direction. We did, however, discuss the

question with two or three others along the way, and certainly did not encounter any feeling—at least, that was directly expressed to us—that this somehow would be a disadvantage to the other provinces, or that it represented a favoured position for Ontario. The reactions we had from other provinces varied from those who were not concerned about it to those, such as Alberta, who said, “Well, we are anxious to do something of the same kind.” I do not know if they have done so or not.

Senator McElman: There was some consultation with the other provinces, however.

Mr. Macdonald: Yes, on our part; but of course, the federal government quite properly took the position that, as they enunciated to the other provinces at the time, this was a service that would be available equally to any province that wished to take advantage of it. This was not to be an Ontario arrangement, it was, rather, an arrangement that would be available to all the provinces. In the period that has ensued since then, over the last two years, again in the ongoing discussions I had, and that our officials had, with other provinces, certainly this was not brought up to us as a matter of sensitivity.

The last job I did for the government of Ontario was in the spring of this year, when I was asked by the Premier to coordinate the arrangements for the premier's conference, which was held in Toronto in September. At that time I made a tour of all the capitals in preparation for that, and, interestingly enough, this is one of the points I discussed with my counterpart at the time. Again I think I can honestly report that what happened, or what might happen in that regard, was not a question of sensitivity.

Senator McElman: Out of all this, with a feeling not only by Ontario, but by some of the other provinces that there has to be greater input by the provincial governments in foreign affairs, since it does not appear that the proper route would be to establish more people to represent the provinces, or act on behalf of the provinces, informationally or otherwise, can you think of any other mechanism or structure that would be useful to achieve the purposes of Ontario, but also the interests of all the other provinces? I referred to the possibility of a secretariat in Ottawa, which would be the input for the provinces into external affairs, presumably with the object of trying to affect foreign policy. Is there any other structure that you can conceive of that would be useful?

Mr. Macdonald: No, Mr. Chairman, with respect, there is not. I think the important thing is to make effective use of the structures which exist, and this is to ensure, on the one hand, that those in the Department of External Affairs attach importance to open and effective input by the provinces into their deliberations, and that the provinces, in turn, equip themselves not merely to talk about these things, but to make an effective and formal input into the process.

These were the points I concluded on, and I really want to stress them, Mr. Chairman. It is a matter, on the federal side, of attitude. It is a matter of the individuals within the existing machinery recognizing explicitly that there is an important contribution to be made by the provinces, and an important responsibility on their part to ensure that provincial input.

On the provincial side it is important for the provincial people to recognize that it is rather more serious than just making off-the-cuff pronouncements about this and about

that, and that they must take this matter seriously and co-operate with the federal department and have confidence in its ability to work on their behalf. I believe, myself, that that can work, and I would not suggest, until there had been a good opportunity for that to work, and a good opportunity for attitudes to change and mature, I would not myself think that we should be moving on into some other form of machinery. In other words, I think the problem is more one of attitude than machinery. I think the machinery is all right if we permit it to work.

Senator McElman: Yes, because the proposal, or the suggestion, of the secretariat, probably would not be in the best interest of Ontario, since there you would have ten equal voices which would be supplying the feed-in under the existing system. Ontario's voice is one of the 10, but it is a very strong, very loud and very effective voice, I suggest, in the framing of national policy, tariff policy, trade policy et cetera. I could foresee that that voice would be diminished in its strength and power if there were a 10-member group, whatever the name may be, feeding into those policies.

Mr. Macdonald: Mr. Chairman, I should say that I have not in these comments today really been thinking of Ontario, or of its position, so much as of the broader question of the role of the provinces. My real concern is effective and representative national foreign policy, rather than what is the greatest expedience for Ontario. As a matter of fact, this is a subject for another day, but if you are really interested in this I will return and demonstrate, I think conclusively, to you why Ontario is the least influential of the 10 provinces in federal-provincial deliberations.

The Chairman: Mr. Macdonald, Senator McElman is from the East Coast and I am from the West Coast, so we might have cause to disagree with you.

Senator McElman: I am prepared to yield, Mr. Chairman. I would like, however, to comment that we appear to have come full circle in our discussion with the witness. The mechanisms are in place by which the provinces can make their input to foreign relations policy. Therefore we should not, perhaps, be looking for other devices or mechanisms but rather to the more perfect use of those mechanisms and channels which are now available.

Mr. Macdonald: That would be my position, Mr. Chairman.

Senator Deschatelets: We are discussing the best mechanism we could find. I would like to know, Mr. Macdonald, if you have during the years of your term in office in Ontario had anything to do with the interprovincial conferences, which I believe started in 1963 and 1964. I presume that the purpose of these interprovincial conferences has been to find a mechanism to deal more efficiently with the federal government concerning, for example, foreign relations, the provincial representation at the Canada-U.S. conference and so forth. From your experience would you say that these interprovincial conferences have achieved a useful result, or did they ever between the provinces reach a consensus on the various problems we have discussed this morning?

Mr. Macdonald: Mr. Chairman, that also is a very interesting area of inter-governmental affairs. The first of the current round of conferences was in fact in 1961. Prime Minister Lesage, as you know, was the force behind estab-

lishing that first conference and they have taken place annually ever since. I was present at nine of them during the last nine years. One of a special nature, for which I had some responsibility, was the Confederation of Tomorrow Conference in 1967.

The question of where the premiers' conference should have gone and how well it has done is really not controversial among the various provinces, as you would know. Basically it has always been a rather loosely structured conference and the pre-eminent concern has been for the premiers simply to meet on the human level, to get to know one another better and to compare notes on matters of general interest. In view of the rate at which provincial premiers have changed recently this is in itself a very important function. It allows them to meet on a ground on which they are not involved in confrontation with the federal government or the sensitive issue of carving up provincial resources, but on which they are considering some of the broad questions of a provincial nature.

Over the years a number of things have happened. In the early years, as I recall those conferences, the premiers discussed everything under the sun, from highway load limits to uniform standards of education. In my opinion it is a reflection of the fact that the governmental structures of the provinces have become larger and their responsibilities have intensified. Over this period of years the premiers at the conference have discussed less and less specific matters. Meanwhile, however, interprovincial meetings of ministers have developed in greater number and with greater frequency. At these meetings the ministers have been dealing more directly with matters of technical co-ordination. In the last two or three years both Ontario and Quebec have attempted to introduce a little more rigour into the proceedings.

In one particular some of us felt that we should perhaps establish an interprovincial secretariat which would have the task of planning the agenda for these conferences and ensuring an effective follow-up. The present arrangements can be very hit or miss. The responsibility for the agenda and record of the conference has been the responsibility of the host province. This results in great discontinuity, because not infrequently the person who found himself charged with the responsibility of setting up the conference for the next year on behalf of the host premier was brand new to the government and had never attended one of these conferences before. Therefore some of us felt that there should be greater machinery and more effective planning.

When Ontario hosted the conference in 1974 Premier Davis hoped that it might be possible to develop more effective machinery for the interprovincial and to develop a few areas of effective interprovincial conference co-operation on matters of national economic policy. This would include the development of a more effective arrangement for interprovincial sharing of power, where some provinces might participate in the industrial and technological activities which Ontario was undertaking in the field of urban transit; where various forms of cultural exchanges, and so on, might be enhanced.

I was asked, as I mentioned a few moments ago, to visit each of the premiers on behalf of the Premier of Ontario and their officials to discuss these things. I think it is fair to report two things reflecting the view of most of the provinces, apart from Ontario and Quebec. First, there is a preference to keep these meetings loose, informal and unstructured. Secondly, there is reluctance to embark on common provincial positions, vis-à-vis the federal govern-

ment, but rather to keep these meetings in the realm of matters of common interest between the provinces.

So that at this time I think it is fair to say that the character of those conferences have not changed much over the year, and on the particular point you raise, a common position vis-à-vis the External Affairs or the machinery of External Affairs is certainly not involved. In fact, I can recall only once, in the nine conferences I attended, where this subject was even on the agenda. I was at a period of time when the province of Quebec was rather energetic in this field and some of the other provinces were expressing concern about it. It was obviously becoming a matter of some sensitivity between the premiers, and one could sense that they did not wish to inflame it unduly. That was about the extent of it.

Senator Cameron: In connection with the role of the embassy and the responsible officials, the function of the designated official of the embassy is that he can perform for a provincial government with regard to the organization of provincial visits of delegations to Washington. To what extent has that been developed? In other words, with regard to representatives of provincial governments going to Washington to discuss with officials at first hand matters of their particular concern, has there been much of that?

Mr. Macdonald: Very little. I know of one or two ministers who have gone to Washington to get particular information at first hand, and the arrangements were undertaken with the full cooperation of the embassy. But I was always rather sorry that things did not develop more. I am thinking of the visit that was arranged a couple of years ago—in the spring of 1972 or 1973—by the Canadian Institute of International Affairs in cooperation with the Department of External Affairs. I was a member of that group. It seemed to me that the kind of briefing and candour we had there was extremely valuable. This is something that if the provincial governments are serious about—and I think they are—they should certainly take advantage of it. But I do not think it has happened.

Senator Cameron: I take it you think it is a good idea?

Mr. Macdonald: I do.

Senator Cameron: What steps should be taken, and by whom, with a view to having provincial officers visit Washington for first hand discussions?

Mr. Macdonald: I think it is an initiative that could and should be taken by the Department of External Affairs here, or whatever is the appropriate federal mechanism for doing this.

There are two ways of looking at this. You can say, "Well, the provincial people are grown men, and if they want to do this and want to initiate and attach a priority to it, they will do it." But I do not think it is that simple. I think there are a lot of claims on the time of all of us and I think it is important for the Department of External Affairs here, as part of its broad responsibility, to ensure enlightened and intelligent awareness of these questions, to encourage these things to be done and to facilitate them.

I would like to see opportunities provided from time to time for key members of provincial ministries, or even premiers, to have opportunities to be exposed to the decision-makers in Washington, to meet with them and to discuss things with them.

For example, this has been done by independent initiative from time to time in cooperation with the Department of External Affairs, and I think that from time to time it has also been done by provinces moving pretty far ahead without full consultation with the Department of External Affairs. I know that in the spring of 1973 I went with Premier Davis to London, England. Discussions took place there with Prime Minister Heath and several of the Cabinet, with business people and others.

There was very thorough economic briefing on the British situation and on the European outlook which was very important, in my view, to the Ontario government because of the circumstances of our trade, which I mentioned, and because I had discovered in various meetings I had with organizations, such as the British-Canadian Trade Association, and so on, that there was a great gap of understanding between government and business people, as well as government people in Britain.

I have, for example, that there was considerable confusion and even misunderstanding surrounding the question of where the Government of Ontario was going with its policy of economic and cultural nationalism. A number of British businesses had come to feel that this policy was to discourage British investment in Ontario. Of course, it was not. It was a general policy about investment in Canada. It was a polite way of expressing concern about American investment. Some of these things were ironed out along the way.

Senator Carter: The meeting to which you referred, when you went to London, was that arranged through the Department of External Affairs? Was the Canadian embassy informed of what took place at that meeting?

Mr. Macdonald: My recollection of the events is that the appointments were arranged directly between the premier's office in Ontario and the corresponding offices in the British government. But the Department of External Affairs was informed immediately when the mission was decided upon, and was involved all along the way. A reception was given at the time by the Canadian High Commissioner, and I believe that in many if not all instances an officer from the embassy accompanied the group to the various meetings. But the initiative was taken by Ontario and the initial contacts were made by the premier's department directly. Here again, whether that would always be true, or whether it was an accident of political persuasion—that these men happened to know each other personally—I do not know.

Senator Cameron: The provinces have some direct contact with Washington, which is a good thing. But what is the situation where, say, Ontario has a representative in Washington advocating one policy, and Alberta sends someone there with a contradictory policy in the same area? Who would have responsibility for resolving a conflict of that kind?

Mr. Macdonald: It all depends. You mean, if there happened to be both an Ontario and Alberta minister running around Washington, giving speeches, talking to people, and running the risk of each of them being interpreted in the mind of the beholder as speaking for Canada?

Senator Cameron: I was not thinking of that so much, as the official office in Washington.

Mr. Macdonald: That is a point. That is why I think there can be only one office. I think there are two different

points, and I think this is where so much of the misunderstanding has been and where it is important to be tough-minded and clear-headed about what we are talking about, that the need must be related to the solution. For a while it appeared that the need and the solution might be running in different directions.

As I have said before, there is a legitimate need and responsibility in the provinces to know what is going on and a legitimate need and responsibility to contribute to the policy process in this area but the solution must be one which preserves the integrity of the Canadian position abroad. That is why I say, given the reality of that situation, it is imperative that the federal machinery make appropriate allowance to handle the provincial involvement in the right way rather than in the wrong way.

Senator Cameron: This seems to underline again the importance of the federal department of intergovernmental affairs.

Mr. Macdonald: Yes, but in this field in particular I again want to make this distinction, with respect, Mr. Chairman, between the overall co-ordination of intergovernmental policy and the bilateral process or foreign policy. I do believe it is well within the capacity of the Department of External Affairs, with a counterpart provincial body, and with overall co-ordination by the intergovernmental offices.

I just want to add one little touch, if I may, Mr. Chairman—something I was reminded of a moment ago by the question on the admission of Britain. A lot of this varies so much because of personal attitudes and personal contacts. I had the responsibility for Ontario of floating the first Ontario bond issue in West Germany and again in Switzerland, and of arranging to establish a syndicate manager in France and in Japan for the Ontario government, where the government has not borrowed but is set up to do so. I suppose for my sins, if I had still been there, I would have been off in the Arab countries with my former boss a month ago. At any rate, in those instances I always made it a practice to advise directly my counterparts in economic agencies here—the governor of the Bank of Canada, the deputy minister of finance—what we were doing, what we were intending, and why, so that we understood each other. That is often the practice, but I know that one of the frustrations in the Department of External Affairs, where the provinces are concerned, is that provincial ministers, and to an extent civil servants, have a propensity for flying off all around the world without observing even the normal process of advising external affairs. I know that sometimes it is an embarrassment to the officers in the foreign embassies to find that there is a senior cabinet member running around and they do not know he is on the spot.

Happily, to my knowledge, nothing egregious has ever happened to create any embarrassment.

The Chairman: If I may interject this observation, Senator Cameron, I believe our witness today, having had a great deal of experience in this area, has acted with proper etiquette in these instances, with resulting benefit to Canada as a whole. I refer to his advising External Affairs or the embassy when he reaches his destination, telling them of his activities. I have a feeling that this is not always the case with people at the political level, possibly with less experience than he has, who simply might go shooting off in different directions without real-

izing the importance of contacting Ottawa before they leave.

Mr. Macdonald: Well, sir, it is really a reflection of the inadequate understanding of the point I raised at the beginning, and that I come back to, that, in my opinion, the Department of External Affairs in a federal country and in its emanations abroad has the responsibility of representing all of the people of Canada and all of the sovereign governments in that role. This is simply a fact of life which has taken a while to develop partly because the frequency of our governmental activities has increased so rapidly, because the provinces have become so much involved in international movement recently. There is nothing wrong with the basic apparatus. What is taking time is for the individuals and for the processes to catch up with it.

Senator Carter: I would like to return to the question concerning attitudes. I gather from what you have said that the real nub of the problem is "attitudes". Attitudes are really those of people, individuals, are they not? How can you control the attitudes of a person? When you were talking about attitudes, I gathered that you were focusing mainly on the attitudes of people in external affairs, but does it not work both ways? Is it not the attitudes of the provincial people as well, and would you not say that there have been times—I wouldn't say frequently—when some of these international incidents or activities have taken place in order to embarrass the federal government rather than to promote provincial interests?

Mr. Macdonald: Well, Mr. Chairman, again I have tried to stress that I think the problem of attitudes is as much on the provincial side as the federal side. I do not wish to sound as if I think the responsibility of the civil servant is to train the politician, but the fact of the matter is that if you get a free-wheeling provincial premier or minister, who is going to go his own way and go where he pleases on his own terms, nothing in the world is going to convince him to do it differently. But I went through a number of experiences with ministers, through the process of suggesting or explaining why there was positive practical advantage to them and to the government for doing these things in co-operation with and through the Department of External Affairs and in co-operation with the federal government, and certainly it was in my experience that those advantages and good reasons were listened to and were taken seriously and to good effect.

With respect to the broader question of provincial motivation for other political purposes, I do not know that that is a matter I can add to greatly. I think we all know the history of it and the political expression.

Senator Carter: What I was really trying to get at, though, was that if the problem of attitudes is one of the main factors in gumming up the works, what can you do about it? I suppose you can get some idea of a person's attitudes when you employ him, but he may conceal his attitudes or his attitudes may change after he is employed. We are faced with the situation now in the federal Public Service where there seems to be a whole new attitude towards the integrity of the oath of office. Not so long ago there was a document leaked out for an ideological purpose, and it seems we have many documents being leaked out. Do you see any solution to that problem?

Senator McElman: Sack them!

Senator Carter: But by that time it would be too late.

Mr. Macdonald: I really do not know the answer to that question, senator. It is easy to say, I suppose, that it is a matter of size. When the establishments were smaller, it was easier to have a greater knowledge of the people themselves, as well as greater corporate loyalty. I accept the hazards that exist. I do feel it is a question of attitude. It is extremely important for opportunities to be made within the Public Service, at least, for people to understand one another. For example, our foreign service officers spend a great deal of their time abroad and become proficient in the understanding of international problems. Perhaps it might not be inappropriate to suggest that from time to time foreign affairs officers should be commissioned to spend a period of time working and living in provincial capitals in order that they may understand the problems and the attitudes of the provinces, at the end of which they could then return and work for the federal-provincial co-ordinating unit in External Affairs. By the same token, I think it would be of great advantage to have some of the provincial officials commissioned to spend a period of time working in External Affairs.

As an article of faith, I believe there are no problems of attitudes that cannot be improved upon by, first of all, simply having a better understanding of what is involved on the other side of the fence and, secondly, developing a relationship with the people on the other side of the fence. That, it seems to me, would take a lot of the tension out of the situation.

Senator Carter: We have not spent very much time this morning on the relationship between the provinces of Canada and the states of the United States. How do these mechanisms work? Is there direct contact between the departments concerned, or government-to-government contact, or are these matters dealt with by the respective federal departments?

Mr. Macdonald: There has been, and still is, a good deal of province-state contact. As a matter of fact, the Internal Advisory Committee on Confederation, which was referred to earlier, published two volumes of essays and studies. There was an extensive interesting one contained in volume 1 describing the background of technical agreements and formal arrangements between the province of Ontario and various states of the United States. I know a number of people, on reading that article, as was the case with myself when I surveyed it, were amazed at the depth and extent of these agreements and arrangements. These are largely administrative, technical matters, of which there are a great many between Ontario and bordering states of the United States. Where there is a broader connotation, the federal government, of course, is kept advised. The intergovernmental co-ordinating unit was always fully involved laterally with the various ministries of the Ontario government.

Direct relationships between Ontario and bordering states of the United States are really quite extensive. All you need do is look at Ontario Hydro or our Department of Transportation as it relates to bridges. All these technical arrangements across the border were quietly, administratively and coolly handled.

Senator Carter: I am wondering whether there is any umbrella federal legislation under which such agreements or arrangements take place.

Mr. Macdonald: There is not, senator.

Senator Carter: If a provincial government enters into a direct agreement with a state of another country, can that agreement be valid without being ratified by the two senior governments?

Mr. Macdonald: They have been in the past, senator—at least, such arrangements and agreements have not been challenged.

The Chairman: If I may interject, many of these things would fall into the category of a contract as opposed to a treaty. There are many government agencies now which are tantamount to private corporations, Hydro being one. These agencies enter into contracts with private companies or governmental agencies across the border, even though they are publicly-owned utilities. So, they are really contractual matters.

Senator Carter: I can understand if it is a contract, but when you get into the area of agreements, they involve a much broader field. It seems to me there must be a dividing line somewhere.

Senator McElman: Perhaps I could throw in some cases in point. International bridges are one example. Ontario, of course, has many international bridges, as does the province of New Brunswick connecting it with the State of Maine. What you have with bridges is a tripartite agreement respecting the participation of all parties in the cost, the arrangements, the specifications, and so forth. You then have situations where the federal governments are not involved at all. In other words, the province and state concerned, for example, agree that a certain route is a major route of transportation and it would be idiotic for either one or the other to put a four-lane highway leading into that route if the other is only going to have a two-lane highway. In that connection they arrive at an agreement, and such agreements do not require the involvement of either federal government. I think those are good cases in point.

Mr. Macdonald: Quite so. The committee might be interested in looking into the Trans-boundary Air Pollution Agreement between the province of Ontario and the State of Michigan. I, myself, do not know a great deal about the mechanics of that agreement. What it involves is a co-ordination program for the abatement of air pollution in the Detroit, Windsor, Sarnia and Port Huron areas. My understanding is that the Government of the State of Michigan and the Government of the Province of Ontario, as well as their constituent municipalities in each case, are working towards common legislation and common binding standards on either side of the water. That is an intergovernmental agreement directly between the province and the state.

Senator Carter: Is the federal government kept advised by the province of Ontario?

Mr. Macdonald: It is, yes. Federal government observers were involved in the planning and were in attendance at the Conference of Great Lakes Governors and Premiers held in Toronto in 1970, and have been involved in all discussions which have taken place since that conference.

Senator McElman: Is it a legislative procedure that in all matters being discussed and agreed upon between a province and a state that the province keep the federal government advised?

Mr. Macdonald: It is now in Ontario. This was one of the practices we initiated as part of the responsibilities of the Office of External Activities which we established in the Ontario government. It had not been done formerly up to that point in time, although in most instances it was done as a matter of habit. The Ontario government at that time wanted to ensure that the federal government would be kept advised as a matter of regular procedure, so it became the responsibility of the Office of External Activities to keep the federal government so advised.

Senator McElman: From the provincial point of view, is the Province of Ontario satisfied that there is sufficient informational flow from Ottawa in respect of international arrangements which the federal government may be entering into with the United States which may have specific and far-reaching effects on the province of Ontario?

Mr. Macdonald: No, I think it is fair to say that it is not satisfying, and again efforts have been made to improve this, but it takes you into the heart of so much of the broad federal legislation. For example, let us take three areas—the preparation of the federal position for the GATT negotiations which is something that the provinces, in terms of industry and labour, are greatly concerned about. When the Foreign Investment Review Act was being discussed, this was an area where the provinces had great concern because of its impact, and when the Competition Act was being discussed, this also was an area that had domestic and international implications for industry in the provinces. Of course in each of these instances, through normal procedures, through submissions to the House of Commons and Senate committees, through submissions to federal-provincial conferences and through special arrangements made by the federal government for discussion with the provinces, I think there has been a great improvement in the last two or three years. I remember how difficult it was about five years ago to make the case that in some of these matters, for instance in commercial policy, which was quite clearly a federal responsibility, the provinces should be heard. I think that habit of mind has changed considerably. So how far you can go in further improving those facilities for that kind of thing, I cannot say, but the trend is in the right direction.

Senator Carter: We have a problem now with the Garrison project where they went ahead and built a dam and diverted waters, and apparently the federal government did not have much input into that but now the problems are coming to the surface. Senator van Roggen himself probably remembers when Premier Bennett went ahead with the dam despite the fact that energy is a federal responsibility. So there are instances where provincial governments have gone into direct agreements without reference to or in some cases in opposition to the advice of the federal government and in some cases have created national problems. So surely there should be some form of machinery devised to prevent that kind of thing from happening.

Mr. Macdonald: Well, I think it would be better if there were.

The Chairman: I am not too familiar with the facts relating to the Garrison project, but insofar as the Skagit Valley project is concerned, where the provincial government went ahead on a simple contractual basis with the private electric light company of the City of Seattle and said, "If you raise your Skagit River dam, which is in U.S. territory, and it floods back into Canada and you pay us a

modest rental for the acreage you flood, \$2,000 or \$3,000 a year, that will be all right." But that was 15 or 20 years ago; now there is a different government of a different political stripe in British Columbia, it has inherited this agreement and the City of Seattle is going to go ahead and build this dam and the provincial government now is saying, "This must not be allowed to happen," and they are saying to the federal government, "You solve this problem for us." I think this is a perfect example of the kind of question you raised.

Senator McElman: You then referred to the fact that the practice is growing now that when conferences are held at the international level provincial representatives are included. I appreciate fully that there should be adequate briefing in advance to ensure that the Canadian rather than any parochial interests are served at those conferences. But what would be the practical effect if a provincial representative at such a conference—and here let us take Ontario as an example—what would be the effect if the Ontario representative saw his responsibility as being something contrary to the position being put forward by the Canadian representatives and he publicly put forward another position?

Mr. Macdonald: I think, Mr. Chairman, that one really has to deal with that issue case by case rather than in a general way. If, for example, there is an international conference on education and the subject is the optimum size of classrooms in the elementary education system, then who else is going to speak on that but the provincial representative? Who in Ottawa can speak on that subject? On the other hand, if it should be an international labour conference and it is a question of Canadian attitudes to the need for hard-rock miners, then it would not necessarily follow that if the spokesman were the Minister of Labour from Ontario that he would represent the national interest. I believe that on this question the policy cannot be a general one; it has to be highly specific and case by case. So I do not think that people need be unduly nervous at all in those instances where the matters being discussed are essentially technical and within provincial technical competence. It is a different question when they become matters of broader political policy nature and if there should happen to be a doubt on the subject then I think the balance has to tilt in the direction of the federal.

Senator McElman: So far as education is concerned, I can see that there would be no real problem because it is essentially a provincial responsibility. But let us take the question of energy, for example, which is a great problem throughout the world today and presently the source of aggravation as between Canada and the United States—at least in some circles. Now, let us say that there is a Canada-U.S. conference on energy policy at this point of time, the provinces would quite naturally want to have some representation. How would you sort this out?

Mr. Macdonald: Well, I think the spokesman in that instance would have to be the representative of the federal government, and which of the provinces could choose to be represented and what the status of such representatives would be—that would be a problem to be sorted out at that time. It could be true that people representing the provinces could hold views at variance with those being expressed on behalf of Canada, but it is also true that these differences will exist whether the representatives were there or not. So that is a problem to be resolved in the federal-provincial debating forum rather than in the foreign policy forum. In other words, I feel that it would serve

no useful purpose to exclude provincial representatives from that delegation, but I am also not sure at all that they could serve any other purpose than being on the spot to hear what is going on. If you can resolve the internal problem of energy, then you will have no problem expressing it externally. If you cannot resolve it internally, then you are not going to help yourself or anyone else by having a big fight among yourselves outside.

Senator McElman: But since each of the ten provinces is intimately concerned with energy and energy policy, each would want to be represented and it just would not be practical, unless they went only as observers.

Mr. Macdonald: As I say, I cannot see any practical advantage to that other than it provides them with the opportunity to hear at first hand what is being said and the kind of attitudes being expressed. But I do not think that that is the arena in which the Canadian energy problem can or should be resolved.

Senator McElman: In asking a question a moment ago, Senator Cameron referred to a case where you have two people in Washington representing a province and it might develop that they had divergent views. What would happen, in practical terms, if you had one person representing Ontario in Washington and if his views as a result of discussions with the Ontario government did not coincide with those of the federal government or federal policies? He would have to be removed if he reached that point, even though he is federally employed but is representing Ontario interests and information and otherwise. We are all individuals and we might all go in different directions. If that person became overly oriented from the federal sense towards any provincial Ontario point of view, is there any resolution, other than to remove him, if you cannot resolve the differences of philosophy or policy?

Mr. Macdonald: If a person, as part of his responsibility, has the job of looking at things on behalf of Ontario and in turn bringing that point of view to the people in the embassy, and if he becomes so fundamentally convinced that he is not being reasonably heard, or that the Ontario position is being misrepresented, I guess he is likely going to resign and go and work for the Ontario government. I do not mean that facetiously, it is like the problem any of us find ourselves in as public servants, that you serve the appointed cause loyally and well but if you ever reach the position personally where you felt you simply could not sustain the position of the government you were serving, I am taking it you would leave. That is a conceivable possibility, but I really wonder in the nature of the time situation which we have been discussing here, whether it is really a likely possibility.

Senator McElman: That is fine, but in the Ontario context we have one there and it is not likely to develop. What I mean to submit is that if the representation there were broad—and not necessarily 10, not necessarily one from each province—if it were reasonably broad, would you not foresee the possibility of this conflict?

Mr. Macdonald: I suppose there is a possibility. Then, if you ask how finally to resolve it, I guess the answer has to be that, when all is said and done, he is on the payroll of the Department of External Affairs and they have the final say in that matter.

Senator McNamara: Would you clarify that for us? This officer in Washington is a federal servant, is paid by the Department of External Affairs and is directly responsible

to the ambassador. The only other thing I would like you to explain is how he gets the information back to External Affairs. Has he direct responsibility to the Ontario government? Can they instruct him to go and see somebody, to advocate certain policies? Does that not come back to External Affairs, and if it is satisfactory to External Affairs they then turn to the ambassador concerned?

Mr. Macdonald: Mr. Chairman, this is why it was set up, in what might seem as an extra corner of the process, going back through Ottawa and then back to Queen's Park. Taking the people in Ottawa who have a responsibility for transmitting the information, part of their responsibility is to determine whether there is any reason in their judgment why that information should not go to Queen's Park or alternatively, if it is a request made by Queen's Park whether there is any reason that it should not go forward to Washington and be met.

The reason, I believe, for that safety valve, so to speak, is simply to ensure control of either an embarrassing situation or a situation in which, in the judgment of the federal government, the matter is of a type of sensitivity that should be limited in its dispersal.

If the Ontario people at the Queen's Park end feel that the Ottawa valve is unreasonably tight, or is not working co-operatively, then in that instance, if I were there, one would finally go to one's minister—go to the Minister of External Affairs and say "Look here, this is not good enough, you are being unreasonable about the problem." You would not go to that level first. Presumably you would go to the deputy minister in Ottawa in the first instance. I think that would be a case of exception rather than the normal rule.

Senator Carter: Mr. Chairman, Mr. Macdonald raised a question in reply to Senator McElman when he used the example of education and asked who would speak for education. I would like to raise a question: Who would speak for education now? We have the provincial conferences and we have interprovincial meetings at the ministerial level. But we still have 10 separate provincial departments with 10 separate types of education, 10 separate types of textbooks, and 10 separate curricula. We have no national curriculum and we have really no national system, although the federal government is spending more and more in educational expenditures. Does not that detract from the usefulness of these interprovincial meetings? If they cannot get down, on a vital problem like this which concerns everyone, and work out a national system, surely you cannot expect them to do very much along other lines?

Mr. Macdonald: Mr. Chairman, that is a choice between nothing or something. Where the different provincial ministers are concerned in education, they have to rotate and each has his turn, but the council of ministers of education is certainly one of the more successful and better established interprovincial mechanisms. The Council of Ministers of Education elects its chairman year by year, and it has been acceptable to them that in a great many conferences the chairman of that Council of Ministers of Education shall be the designated spokesman on behalf of all of them, at both national and international meetings. I think that has happened rather successfully. There is one special complication in that and that is in the case of French Canada. This is of course a case where some very important initiatives were taken through the Agence and through the French educational system for their rather

different and special problems. That is an important point to recognize. Since I am now rediscovering there is no one who agrees with anyone about anything in the field of education, this is perhaps not the time.

The Chairman: If I may make this observation, Senator Carter, education is the type of subject where one might go to an international conference to gain further knowledge, but really whatever policy we pursue in Canada is of little consequence or concern to another nation. Whether it is either a good system or a bad system, that is our headache. Unlike trade or tariffs, energy and these other areas, you are not really in an area where you are having an impact on the relations with another country.

Senator Carter: The point I was trying to make was this. Here we have this mechanism of interprovincial meetings of premiers, where they discuss things generally, and we have the counterpart at the ministerial level, with interprovincial meetings of ministers of education and so on. Yet in all these years they have not even come up with a common curriculum, a common system of teacher training and a common system of licensing teachers so that they can move from one province to another. We are all ten separate little states still.

The Chairman: I repeat, is that not an internal and not external problem? In other words, it does not have a direct bearing on our foreign affairs, does it?

Senator Carter: No, but it has a bearing on federal-provincial relations, which we have been talking about.

The Chairman: Oh yes.

Senator Carter: If these provinces cannot get together on their own, is there not a need for federal initiative to try to sort this out?

The Chairman: The point I was trying to make was that there may be a need for a federal initiative to sort out a number of questions where there is not agreement between all the provinces, but for the purposes of our study we should perhaps try to confine ourselves to federal initiatives for sorting out with the provinces a common policy in those areas where we are going to try to deal with the United States or some other foreign country.

In that connection, a few minutes ago Senator McElman used the hypothetical question of an energy conference. A specific example is the recent insistence of the British Columbia Minister of Industry—I think I am correct in these facts—wanting to be attached to the federal negotiating team on some tariff question in Geneva. This was refused by the federal government, if I recall correctly, and the provincial minister concerned was rather outspoken publicly in British Columbia, saying that he wanted to be there because otherwise we would end up with a lot of Ontario high tariffs, which would be opposite to the policy that he wished to pursue in the best interests of British Columbia. My point is that I take it from your evidence, Mr. Macdonald, you would agree it would be improper to have him go, because we would be having a public squabble at the conference.

Mr. Macdonald: Absolutely.

The Chairman: He may have a perfectly legitimate point to put forward, not at the conference but prior to our negotiating team going. Is sufficient opportunity granted at the moment, prior to those types of missions being sent

forward by our Department of External Affairs or the Department of Industry, Trade and Commerce, for consultation with the provinces, where they are given an opportunity to sit down and say, "We don't want to pursue that policy because that only benefits such and such a province and not our province"?

Mr. Macdonald: There is better consultation than there was. In preparation for this round of GATT negotiations Mr. Gillespie invited all the provinces to participate with their input in discussions with him, from which his department and the federal government would be forming a position. As we all know, the trouble is that consultation is good when the result agrees with what we recommended and bad when it does not. You cannot go on with it for ever.

Again I come back to the question of the attitude that is created by the people involved and the feeling of openness and genuineness in seeking advice and input. In my experience, it simply varies so much among the attitudes demonstrated by interested ministers and individual civil servants. In the last year I was very pleased at what I saw going on for provincial output in preparation for that federal case at GATT. I think it is important for the country and important for interprovincial relations that that process go on, not just bilaterally, but collectively with the provinces and the federal government, because I believe that minister in British Columbia might be surprised to learn that there are a lot of people like myself who think the tariff has served Ontario rather badly for the last one hundred years, but we will not go into that this morning. I think it is important in our understanding that those opportunities exist for that purpose as well.

The Chairman: Honourable senators, it is very close to noon, and we must not keep our guest too much longer. I understand Senator McElman has another question.

Senator McElman: Would Mr. Macdonald not agree that one of the real problems in the provincial attitude toward Canada-United States relations is perhaps the lack of federal policy that takes into account the interests of the country at large? Let me use this as an example. We have the Skagit proposition in British Columbia and the Garrison Dam deal in Manitoba, which represent one side of the Canadian interest. Then we have the Saint John River, which involves Quebec, Maine and New Brunswick, where the Americans have for quite a number of years proposed putting in a major storage and power facility if possible, which would benefit three major hydro installations in Canada. Here you have the interests of Canada represented in two different fashions. Has it not been the case that in any instances of our relations with the United States in such cases there has been more ad hocery at the national level.

Mr. Macdonald: I think I mentioned at one point in my opening remarks that I felt a great deal of our Canadian-American relations had been reactive in nature, and that people are not always at their best in those circumstances. We spoke about the Ontario reaction in 1971, and it was largely of that nature. I believe that if as an ongoing process the provincial governments had been better informed, and if the federal government had been a little more explicit in its policy objectives, the situation would certainly have been better. I fully understand the difficulties of formulating explicit policies at the federal level on these questions, particularly where the regional interests vary so greatly. On the other hand, to shy away from those

policies certainly does not help the country or the regional interests as a whole.

I suppose the issue we face in our public policy in general is the issue of working with a far enough horizon to be effective at the time the so-called crisis occurs. This is something we must keep working at, stressing and urging in federal-provincial relations. I do not use this example at all to suggest that righteousness is on the side of the provinces at all, but it happens to come to mind that throughout the period 1970, 1971 and 1972 we were pressing consistently for a federal-provincial conference on energy to prepare for the very clear directions that were emerging in the future. It did not happen, and suddenly in 1973-74 we found ourselves in the midst of that. I must say, in ten years, the most unsatisfactory federal-provincial discussions I was involved in were those during the last year on the energy question. The situation has been allowed to drift too far and too far apart, and all of us together in the federal government and in the provinces should have been doing a better job of preparing for those conferences than we did. I believe in the input of governments to each other, and I believe, in this particular case, in the input and the intelligence that can come from these foreign listening posts. I think, essentially, that is what we are talking about, and why we are talking about it.

Senator McElman: Going back to my example of the water situation—power dams, storage dams and the like—in a situation where the governments of British Columbia and Canada both are involved, let us say in the Skagit, is it the responsibility of the federal government to say to New Brunswick, “Now, look, fellows, the policy that is eventually reached on this is going to affect you very much in your ambitions in having the Americans develop the upper St. John River, so that you get, through storage, increased power at cheap rates, and so on, so you had better have some input into these discussions”? Or is it the responsibility of New Brunswick to say, “Look, that situation there is just the opposite of our interests, and if an agreement is reached there, it is going to affect our future power rates, and so on, very adversely”? Is it the federal government's responsibility to tell New Brunswick: “Come on! Get aboard here and get you interest in,” or is it New Brunswick's responsibility to sense the difficulty and get in there themselves, since there cannot be a general policy that will serve all situations?

Mr. Macdonald: I think the great burden of responsibility lies with the federal government in this matter, not only to be staffed and equipped which will enable them truly to comprehend how the provinces are going to react, and what their legitimate concerns will be, but also to foresee what some of the pitfalls may be for them as well. If you only come in at the stage where the province suddenly feels that the federal government has moved in and upset its priorities or diverted its thinking, or embarrassed it politically, you are bound to have difficulties. There is a difficult balance between the provincial government, which, in the final analysis, if you want to have a country at all, must retain some pre-eminence in, at the very least, co-ordinating these matters, or at the most, directing them, and the offensive nature, for a province which, after all, is a sovereign government in its own jurisdiction, of a situation in which it finds that it is being treated to an attitude of “father knows best.” Again, I do not want that to be interpreted as a kind of slighting criticism of the federal government, because you could bring representatives of the federal government here, and they would be able to tell

you all the things that we did badly; but I think the point is to try and get better procedures.

It is so important that the federal officials truly understand the regional composition and peculiar problems of this country. Time and time again it was my experience that this was not sufficiently the case. I fully appreciate all the problems that the federal government has in achieving consensus in a country of this nature, but I think it is significant that you can go to your part of the country, Senator McElman, and talk to officials in your provincial government there who will speak almost in terms of despair about a program with acceptable goals, that are designed to help them, but with people operating it who simply do not understand enough about them or their problems. I know this is a huge responsibility for the federal government, but I think it cannot be dealt with only when the problem has already occurred. I think there has to be a truly effective partnership from the beginning to the end.

I went through the whole constitutional review exercise from 1968 to 1972. There is no doubt in my mind that if we met for a thousand years, in the type of economic and social life that we have to live today, we are never going to categorically and clinically define areas of federal-provincial jurisdiction. There are always going to be grey areas and border-line areas, and probably there ought to be. Therefore, the only way one is going to get good national policy, composed of federal and provincial inputs, is for an effective partnership process to exist from the beginning of these problems. There must be openness, candour and co-operation all down the line. These are not concepts which are just hollow slogans on political platforms. They are real questions. Since the federal government, in the final analysis, is always going to be the one that has to come in and tidy up, if that state of openness and partnership does not exist all along the line we are always going to end up with a collision.

I am not so naive as to think that collisions can be avoided perfectly, but I think they can be handled a lot better in this country than we are doing it right now.

Senator Carter: We were talking about cases where there might be a conflict of provincial and federal interests. Immigration is one such matter. Can you tell me, with respect to British immigrants coming to Ontario, whether they are handled by the Ontario office in London? Or do they go through the external affairs department? Do they go through the High Commissioner's office?

Mr. Macdonald: Well, Mr. Chairman, my understanding of that situation is that all of the procedural and formal apparatus for the admission of an immigrant, and his transmission to this country, is done by the high commission. I do believe, however, that the bulk of the counselling, and the bulk of the work done in connection with placement, job location and citizenship reception, and so on, is done by Ontario House in London. I think that is a large part of their work.

The Chairman: Gentlemen, I think we should come to a close very soon, but I wonder if I might impose on you, Mr. Macdonald, to ask just one question that I have in mind. The question concerns just one sort of general area, and embraces certain things from what you have already said to us.

It has been said by certain people that foreign policy is becoming less and less the typical foreign policy of the

past, which dealt with questions of war and peace, and is more and more a question of economics. That would certainly appear to be the case in so far as our relationship with the United States is concerned. You made a very good point, earlier in your testimony, that there possibly should be more openness and candour, as you suggested again a moment ago, and less of the secrecy which is, perhaps, inherent in the External Affairs department approach. This would, if I understand you correctly, be compatible with the fact that economic questions are now paramount, and there need not be the same amount of secrecy in discussing simple business relationships and economic matters back and forth between our countries as might have been the case in terms of the old-fashioned diplomacy.

I take it you think there should be more openness by the External Affairs department in discussing all of these matters with the provinces and in arriving at positions that we could take vis-à-vis the United States, but that it should be done, basically, through the Department of External Affairs so that we will speak with one voice. Is that a fair summation?

Mr. Macdonald: I think that is a fair summation. I do believe that. I think that styles in institutions take a long time to change, being based on quite appropriate circumstances of one certain time. The kind of protocol and diplomacy and secrecy that we are familiar with was certainly based on very good reasons at the point in time in which they developed; but I am sure all of you have had the experience that I have had, for example, in Washington or London or elsewhere, where the kinds of things that may have been whispered to us through diplomatic channels, in hushed tones, everyone was talking about down-town. There is a little bit of a gap there and although I do not wish to put too fine a point on this, because I am no expert in the international diplomatic style, I suspect this question should be rather seriously considered.

The Chairman: One remaining question, on which I do not think we have touched adequately this morning, is that of a purely business office of a province for commercial purposes in any country, as opposed to what might be described as another type of diplomatic office. You have made it quite clear that we should work through the Canadian embassy and the provincial representative therein. What is your view of the need and, if there is the need, the advisability of establishing commercial offices dealing only with business matters, promotion of capital and so forth, in foreign countries? If there are to be such offices established, should they be confined to commercial centres other than the capital of the country so as not to become confused in any way with our diplomatic mission?

Mr. Macdonald: This issue, of course, is again similar to that of the Ontario office, which in London was established in the governmental and business centre. However, the office in Washington can scarcely be described as being in the business centre. I must say that for a couple of reasons I have always had a little concern with respect to maintaining provincial offices abroad at all. First of all, we have the question of a straight division of labour and the concern over the proliferation of government. I suppose if one were really to draw up a list of those federal and provincial agencies which should be closed down, following which we could continue to operate as a country quite well, the trade offices of the provinces might well be on the provincial list.

I realize, of course, that again it has worked reasonably well. Certainly it was my experience that the Ontario trade and export missions worked extremely well in their own field and with the federal government, supplementing one another. All provinces will probably take the view that they have special industries and activities which can be more effectively represented by them directly.

I am of the opinion that in terms of the over-all external stance of Canada we can continue to put more weight on the commercial side than on the diplomatic side. Perhaps this is a reflection on my bias as an economist, but I believe that in many of the situations in which I have been involved, or visits I have made, I felt that we do need strengthening on the commercial and economic intelligence side and that the balance should be in that direction.

The Chairman: Do you mean within our embassies?

Mr. Macdonald: Yes, within our embassies. However I think this should be done, again, on behalf of Canada, but with full provision for the provincial input. In this connection, I suspect that one must ask why have there been so many provincial trade offices opened abroad? Is it just a tendency to aggrandizement on the part of the provinces, or is it a feeling that somehow the federal system has not quite kept up with the emphasis the provinces would prefer? After all, a person sitting in the provincial capital in his daily life has very little reason to ponder or attach much importance to the diplomatic role. I am not saying it is not important, but in this connection he has not had reason to attach importance to it. Therefore if he feels that the federal government in turn has not attached due importance to it, he goes and does it himself. I think that is the reason why people do these things for themselves.

There is, however, a great big question of Canadian national policy that has received very little attention. I merely refer to it here. We cannot get into it. It is on the whole question of trade and commercial policy. One of the things that is going on, about which we do not talk much, is that we supposedly have a common market in Canada. At the same time we have a number of provincial preferential practices, provincial purchasing practices, provincial industrial encouragement practices, which have the effect of diminishing the quality of the common market in Canada.

Here is the kind of thing that should be discussed when we are talking about a Canadian commercial tariff policy in GATT. To the extent that we diminish tariffs around Canada generally, it may well have the effect of encouraging certain areas of the country to increase their own provincial preferences and their own internal non-tariff barriers. So we may end up by moving in the direction of freer trade abroad and more protectionism at home. This is a little hobby horse of mine. I have been trying to get people to talk about it, but without much success.

The Chairman: It has, of course, grave consequences for us internationally, particularly with the United States.

Mr. Macdonald: It could be self-defeating for this country. Again I am not saying that the provinces should all lie down and capitulate. The provinces are doing this for good and valid reasons of regional disparity in this country. But is that the best way of dealing with regional disparity in this country, or is it going to be self-defeating in terms of overall interest? I hope that some day we may be able to get into that one.

The Chairman: Judging from your remarks today, sir, members of the committee may well feel they would like to have you back on some other subject. If there are no further questions from honourable senators, I thank you on behalf of the committee for the time you have given us today and for the frankness of your response to our ques-

tions. We look forward possibly to seeing you again before you conclude our study.

Mr. Macdonald: Thank you, sir. I have enjoyed it immensely.

The committee adjourned.

APPENDIX "A"

EVIDENCE

NOTE: In accordance with a Resolution of the Committee dated December 5, 1974, these proceedings are printed with the agreement of the witnesses concerned.

Ottawa, Wednesday, May 8, 1974

The Standing Senate Committee on Foreign Affairs met this day at 8 p.m. to examine Canadian relations with the United States.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, I might say that this is a rather historic evening and the circumstances are most unusual. I would like to express to all of you my gratitude for your presence.

By pure coincidence the committee's meeting this evening on the Canada-United States Air Agreement is being held on the actual day of the signing of the agreement. A few hours ago the Secretary of State for External Affairs, representing Canada, and Ambassador William Porter, representing the United States, affixed their signatures to the agreement in Ottawa.

One of the Canadians most concerned at the official level during the difficult negotiations was Mr. Michel Dupuy, head of the Canadian negotiating team.

I might say that three weeks ago Mr. Dupuy and I were together at a conference in Europe and renewed a long-standing friendship. You are most welcome here tonight, Mr. Dupuy.

As members of the committee will also recall, Mr. Dupuy, an Assistant Under-Secretary of State for External Affairs, appeared before the committee last year in the briefing session before the trip to the European Community Headquarters in Brussels.

With Mr. Dupuy are Mr. Michael Butler, on his immediate right, and Mr. Ralph Collins.

Mr. Butler, formerly Assistant Deputy Minister in the Department of Energy, Mines and Resources, is now a senior ministry executive for policy planning with the Ministry of Transport.

Mr. Ralph Collins, a former Assistant Under-Secretary of State for External Affairs, was appointed in February as the Chief Air Negotiator for Canada. Earlier, as I am sure all honourable senators are well aware, Mr. Collins was the first Canadian Ambassador to Peking after the recognition was negotiated in 1970. Naturally, we are very honoured to have you here this evening, sir. Indeed, we are pleased to welcome all of you.

Anyone who read the press accounts about a year ago of the Canada-U.S. air negotiations will perhaps remember, as I do, the description of the tough bargaining and of eleventh-hour settlements of thorny issues such as pre-clearance. Although, as members of the public, we knew very little of the substance of the negotiations, one certainly gained the impression that Canada had to work hard to gain what it did in the negotiations.

No one is in a better position to give us an insight into the complexities of bargaining with Washington than Mr. Dupuy because, of course, his experience has not been confined only to the air agreement negotiations, but to much broader bilateral economic issues.

However, by using this air agreement specifically, we hope to gain some insight into the functioning of the institutional machinery between the two countries, the problems and the techniques of bilateral negotiating, and

the impact of such bargaining and agreements on Canada—U.S. relations.

Although, as we all understand, this meeting is being held *in camera* at the request of the officials, in view of the sensitivity of the subject, we shall be reviewing the evidence with the witnesses with a view to eventual publication. However a complete record is being kept which will be available for the private use of the committee and the staff.

I had a brief discussion with Mr. Dupuy prior to commencing this meeting, and we have agreed that he will make an initial presentation, taking perhaps 20 to 25 minutes; and then if his two colleagues wish to make a contribution we shall certainly be pleased to hear from them. Following that I will ask Senator Lafond, who has very kindly agreed to do so, to lead off the questioning.

Mr. M. Dupuy, Assistant Under-secretary of state for external affairs: Thank you, Mr. Chairman, for your welcome. We are dealing tonight with a subject which is very important in terms of Canada-United States relations and also in terms of Canadian foreign relations in the civil aviation field. There are three agreements involved, and on signing the agreements this afternoon the Honourable Mr. Marchand remarked that they were the biggest in the history of civil aviation. It is, indeed, a very proud accomplishment on the part of the Canadian team to have negotiated a settlement of this magnitude, with the co-operation, at times extracted with some difficulty, of the American side.

What I should like to do to launch our discussion this evening is to talk in turn about each of these three agreements, starting with the situation as it existed prior to the commencement of the negotiations. From that background it will become apparent that some considerable Canadian interests were at stake and that considerable obstacles had to be surmounted. Having described the background I will then go through the history of the negotiations. Thus, it will become apparent how, through various negotiating techniques, we managed to break down the barriers and eventually reach a settlement.

From the Canadian viewpoint, the most important agreement of the three reached was what we call the route agreement. Essentially, what was at stake was the revision and updating of the Air Transport Services Agreement between the United States and Canada. That agreement dated back to 1966, and basically contained a list of air routes approved by the Government of Canada and the Government of the United States for operation between the two countries. The agreement itself was an updating of earlier agreements going as far back as the early postwar period.

I have gone into this background because the pattern of air relations between Canada and the United States was established shortly after World War II in circumstances which obviously were quite different from the circumstances prevailing today. Aircraft at that time were of short-range capabilities; they did not have the speed of jet aircraft. The whole concept of air transport across the border was one of hopping a short distance from a Canadian city to an American city, which was a gateway to other parts of the United States; the flight was continued from that point onward to the final American destination on an American domestic airline. Canadian carriers would

simply go over the border to a nearby American city, at which point they would turn around and come back to Canada. If passengers wanted to go deeper into the United States, they had to travel on an American domestic carrier. With the passage of time and the advent of the jet age, these patterns became quite detrimental to Canadian interests, because it meant that whenever Canadians wanted to travel from Canada deep into the United States territory, the tendency was to use a United States carrier rather than a Canadian carrier as the United States carrier would take the Canadian passengers from the Canadian terminal, stopping across the border for a short stop, to their final destination; Canadian carriers could only take them on the first leg of their trip, that is to the American gateway, at which point further connections had to be made, some of which were very inconvenient.

This was the pattern of air travel between Canada and the United States which successive Canadian negotiators have had to break in order to obtain long hauls or deep penetration routes. During the negotiations which led to the 1966 Agreement, we had modest success in obtaining some long hauls. If my memory serves me correctly, we obtained long hauls between Montreal-Toronto and Florida, Vancouver and San Francisco on the Pacific Coast and Toronto and Los Angeles. Quite clearly, those constituted a small number in comparison with the total number of routes that existed behind the United States border from the so-called United States gateway.

This was the situation as it existed in 1966, and the Canadian government was well aware then that more had to be achieved. The negotiations terminating in 1966 failed to meet three requests for routes, two on the Canadian side and one on the United States side. These were so important to each side that in spite of the failure to reach agreement on them an annexed exchange of notes did record that future negotiations should attempt to resolve the matter. The three routes were Chicago-Montreal, on the American side, and Winnipeg-Chicago and Vancouver-Los Angeles, on the Canadian side.

Implicit in the previous agreements, therefore, was the concept that new negotiations should take place as soon as practicable. The 1966 agreement also provided for a review of air services, so that negotiations could again be resumed. As things transpired, however, it became obvious that the Americans were not much interested in joining in new negotiations following the 1966 agreement. The heart of their position was the system which I described. They realized that the Canadian objective would be to break the back of the so-called gateway system and therefore change the balance of the agreements. Indeed, this was precisely what we were out to achieve.

We were helped in our approach by a report prepared for the President of the United States by Mr. Galbraith. According to this report, the air relationship between Canada and the United States should be seen not in the narrow perspective of airlines' financial positions, but rather in the perspective of a continental market with a public to be served on both sides of the border. This was a wide concept. Mr. Galbraith's report clearly favoured the Canadian approach; that is, that we should try to do away with the gateway system and adopt instead a system of long hauls in which free competition would develop between Canadian and American carriers.

That brings me to the beginning of the latest round of negotiations which began in 1969. For the purposes of our discussion this evening, I think we can split the negotia-

tions into two main phases. The first phase was essentially, a statistical exercise for the purpose of assessing the potential volume of traffic, the potential revenue from new routes and of determining how these should be split between carriers. We also had to assess how the new routes might divert traffic from existing routes, thereby reducing the value of those routes.

In the first phase, request lists of routes which both sides wanted were tabled. My notes indicate that we put forward 17 routes, to begin with, and the United States 18. Following the tabling of these lists, we realized that they would not provide the right balance between Canada and the United States, as the routes the United States had requested were more valuable than the routes we were prepared to offer. The same applied to the Canadian request and United States offers. The only way to progress was to make the package bigger. We had to try to provide the United States with an incentive to enable them to meet the basic Canadian objectives. This was, for the most part, achieved by the end of the first phase. By then, the United States had raised the number of their requests from 18 to 29. In terms of gross revenue from all of these routes, we were dealing with something in the order of \$120 million, in addition to the revenue from existing routes, which was about \$130 million.

In the second phase we had therefore a very big package to deal with. Negotiations were vigorously pursued, but unfortunately came to a halt after a period of about a year. This was due largely to a deterioration of air carriers' financial positions, particularly on the American side. 1970 was a bad year for United States carriers; it became quite clear to the Canadian team that the pressure exerted by the United States carriers not to get into new route ventures was such that we could not possibly achieve the big package we had by then decided to try to get. We could have obtained a mini package, but this clearly would have been a considerable disappointment for the Canadian negotiating team.

We recessed to talks about a year to permit a turnaround in the state of the carriers' industry. After about a year it started to pick up again. We thought that the climate was improving, and that therefore we could resume the negotiations. We also had to be imaginative and invent new methods of negotiation.

We had some informal talks with the Americans, outside that negotiating sessions, in search of these new techniques; and we eventually developed two to permit us to progress. One was phasing. The other one was slicing the package of routes into several component parts so that each part would be more easily manageable. Phasing immediately became part of the negotiations. We realised that we could not, right from the day the agreement became effective, namely today, have all routes operated. The package had grown in the meantime. By then we were dealing with something like 70 routes or so; a very huge package.

We therefore decided we would phase in the routes so as to reduce the impact on the carriers' industry. The phasing in negotiation was actually not too difficult. We agreed fairly rapidly to a five-year period, with exceptions, and it was the exceptions that gave us the most trouble. On slicing, we divided the "cake" or package into several sectors. One, for instance, contained routes from western Canada to eastern United States; another from eastern Canada to western United States; another the Pacific coast routes; another the Atlantic coast routes—and there were

some residual routes. We tried to achieve a reasonable degree of balance in each of these sectors. As we came near agreement in one sector after another, we began to see the overall shape of the package and the residual routes could be used for final balancing.

.....
This brings me to the second and third negotiations, because it was in the second and third that we found the leverage necessary to move the first to a successful conclusion. We had to go for an even larger and complex package. The second negotiation was pre-clearance.

The system of pre-clearance had developed over the years without formal agreement between the Canadian and the United States Governments. This was essentially a convenience, a facilitation system. I do not need to describe it, because I am sure most, if not all of you, will have experienced the pre-clearance process. It was somewhat unilateral, since we do not have Canadian customs south of the border.

Secondly, the pre-clearance system tended to accentuate the harmful effects of the phoney gateway system, because what happened was simply that passengers boarding at, say, Montreal and moving to the southern United States would be pre-cleared in Montreal, and hop to New York, and this would shorten the time of the wait in New York. The same American aircraft, being pre-cleared, after discharging passengers, could just continue on its way. In other words, pre-clearance saved the American carriers the trouble of clearance on the American side, and made it even more attractive for Canadian passengers to fly American.

The Chairman: To put this into a time phase, when was the pre-clearance issue first raised? What is the date on this?

Mr. Dupuy: The pre-clearance issue became a live issue in 1972. Interestingly enough, it was the Americans who started their own trouble. They looked at the possibility of withdrawing from pre-clearance, because they considered that the pre-clearance system was not an efficient system to block the drug traffic, and was an inefficient system in terms of customs also. There was a split in the American administration with the Department of State, the American carriers and the Civil Aeronautics Board (C.A.B.) who wanted to maintain pre-clearance. On the other side you had customs, the Narcotics Bureau and the Congress who, for financial reasons, wanted to end pre-clearance. It became very clear to us that this was an issue that would inevitably affect the route package. As you may recall, the Canadian Government decided to terminate pre-clearance unless an agreement could be reached on routes.

We had therefore at that stage established a close connection between a successful route agreement and the maintenance of pre-clearance in Canada, and we had assessed the value of pre-clearance for the American carriers. We were quite determined to get, in terms of benefits on long hauls, return payment for pre-clearance in Canada.

I will not say very much about the pre-clearance negotiation. There was a difficult aspect to it, and my colleagues, who conducted this negotiation, will be prepared to answer questions about it. The agreement is a simple one. It enables the expansion of the pre-clearance system to other airports in Canada. The Canadian Government also secured the right to establish pre-clearance in the United

States at a number of points. It became clear that the Americans would accept a package on routes and pre-clearance. This enabled us almost to conclude the route agreement. I say "almost", because by then we had gone into the third negotiation, the charter negotiation.

Canadian carriers, in particular the Canadian regional carriers and Wardair, which is wholly a charter company, quite successfully developed over the past three or four years markets in the United States, particularly to the so-called "sun spots," Florida and Hawaii and, to a lesser extent, California. This was very good business protected by Canadian regulations on charter. Essentially, the heart of these regulations was the so-called right of first refusal. That is, if a party wanted to fly from Canada to the United States our Air Transport Committee would ask Canadian carriers whether they were able to take the business. It is only if the business was turned down by the Canadian carriers that the American carriers could get it. There was, therefore, a very good protection to Canadian carriers.

The second protection was the so-called uplift ratio, and this provided that in order to take one flight from Canada into the United States, the American carrier had to bring one flight from the United States into Canada. This was one for one.

This uplift ratio was very protective for Canadian carriers because American regulations made it virtually impossible for American carriers to bring charter traffic into Canada. The American regulations were such because they were intended to protect scheduled U.S. carriers. So we had a very efficient protection of Canadian interests and we had virtually a monopoly of the business.

This is the monopoly the American carriers wanted to break, and they in turn, playing the game of cross-concessions, indicated to us that they would not settle on routes unless they got a charter agreement which was acceptable to them. This is how we got into a charter negotiation. On the charter side, we were making the concessions. Therefore, we had the most leverage. The negotiations led to a very complex agreement and we would be quite prepared to answer questions on that.

Essentially, what we did was to develop a market-sharing arrangement, a system which would give American carriers access to the Canadian charter markets, but which would protect Canadian carriers by ensuring that American carriers could not go above a certain percentage. Roughly, we took the most valuable markets, Hawaii and Florida, and put a 25 per cent lid on them for American carriers. For the whole market, including these two, they cannot go over 40 per cent.

Mr. Chairman, it is the marriage of these three agreements and these cross-concessions which permitted a successful outcome to the negotiations.

I have rambled on long enough and, I will be pleased to answer questions on the specifics of the agreements or on the particular obstacles we had to surmount in the course of the negotiations. Thank you, Mr. Chairman.

The Chairman: Thank you very much, Mr. Dupuy. Mr. Collins and Mr. Butler, would you prefer to be in on the question-and-answer side of it, or would you care to make a statement first?

Mr. Michael E. Butler, Senior Ministry Executive, Policy Planning and Major Projects, Ministry of Transport: No, I think we can probably answer questions as they come up later.

The Chairman: Fine.

Mr. Dupuy: Mr. Chairman, our colleagues from Transport have brought some charts which, visually, will clearly indicate what we achieved on the routes. The most telling charts show what were the existing U.S.-Canada routes before the negotiations. The dotted ones are the Canadian, and the full ones are the United States. As you can see, they were roughly balanced, although in western Canada there was a complex of American routes. As can be seen from the charts, eastern Canada was well served, or relatively well served, but western Canada was rather unsatisfactorily served and was served in the Prairies by American carriers only. In fact, on the west coast we had only the Vancouver-San Francisco and the Vancouver-Hawaii routes.

How, here are the new routes. Obviously, to get an idea of what is available now, or what will be available as phasing-in progresses, one would have to superimpose the two sets of routes, the existing ones and the new ones.

These are entirely new. They give an idea of how much they have increased the air routes, and I hope it is visible enough. We can see how much Canadian routes have been increased. In terms of long hauls, perhaps the most significant ones, the new ones, are Montreal-Los Angeles; Edmonton-Calgary-Los Angeles; Vancouver-San Francisco; and also the Montreal-Toronto-Dallas-Fort Worth-Houston routes.

These are long hauls. Since we already had long hauls to Florida, we established long hauls to Texas, a long haul across the United States to California, a long haul from the Canadian foothills to California, and one long haul along the Pacific coast.

The Chairman: As you point out, the two charts have to be taken together, one superimposed on the other.

Thank you very much, Mr. Dupuy, for your very lucid presentation. Two or three of the words which you have used are extremely interesting to me and, I am sure, to other members of the Committee. You used the word "leverage", and you mentioned how these three agreements come together, how there is a marriage, and how at various stages there were "peaks and valleys" in your negotiations. This is the area that this committee is most interested in having a look at, just to follow the progress, and I am grateful to you for the history, because it does reveal the kind of thing that we are looking for.

Senator Lafond: would you be good enough to lead?

Senator Lafond: Thank you, Mr. Chairman. I must say that I am sorry we are having our meeting *in camera*, because I think it would be useful to put on record that on this particular day a government has been defeated, a house is about to be dissolved, but one of the stable elements of this Parliament, the Senate, is still at work.

Hon. Senators: Hear, hear.

The Chairman: We could arrange for a special release.

[Translation]

Senator Lafond: Mr. Chairman, may I speak to Mr. Dupuy in French? Mr. Dupuy, the geographic area of Canada is greater than that of the United States. As well, in terms of industry and transport, their demographic, economic and aeronautic base is much larger than ours. Therefore I wonder if you could give me an impression of

our feeling, and of the feeling of both countries, at the beginning of negotiations such as those we have undertaken, about who has the most to gain, and who has the most to offer?

I understand that one of the elements in play at the beginning of these negotiations was the amount of traffic between the two countries.

At the start, which of the two had the advantage, if any, concerning the volume of passengers or freight, or the flow of traffic towards the other country?

Mr. Dupuy: It must be remembered that traffic on an air route moves in two directions. When two cities are connected, it may be by a single or a two lane route.

Let me explain. A single route means that one air line, from one country or the other, will make round-trip flights; that is, in the north-south direction, it will carry mainly Canadians, but these Canadians will return to Canada. In the south-north direction the reverse is true. Obviously, the nationality of the traveller makes no difference. When this type of route is established, the fact that American cities are larger, or that there are more of them, is not necessarily an advantage to the United States since the traffic will move in both directions.

On the other hand, I spoke of two lane routes. When the traffic reaches a certain level, it becomes possible to establish two routes between the two cities, one of which will go to an American carrier, and the other to a Canadian; at this point the two are in competition and you have a perfectly balanced situation. However, your comment is both insightful and accurate. The United States is in a much stronger bargaining position than a country with a smaller population and a less powerful air industry.

Our ability to negotiate has been limited mainly by the very disproportion which inevitably exists between the United States and Canada regarding population and geographic distribution of urban centres; as one of my colleagues said, during the course of the negotiations, "Unfortunately, we have the North Pole on our backs, while the United States has beautiful tropical climates."

Senator Lafond: Perhaps the demographic and economic disproportion is another question, but is it discussed at a basic negotiating level, or is it downplayed because the United States is negotiating with Canada? Does a good neighbourly spirit exist, or not?

Mr. Dupuy: In order to answer that question I must elaborate on negotiating techniques. How is an air agreement negotiated? No agreement is possible unless both parties feel that their interests are served. There can be no agreement when there is an imbalance. It is necessary, therefore, that both parties be satisfied.

Statistical studies of present and future traffic flow form the basis for air negotiations. My colleagues, the statisticians from the Department of Transport, have developed a finely tuned system of projecting future traffic flow that allows us to forecast, several years in advance, the probable revenues which certain routes will generate.

From the beginning, then we have a table which gives, in dollars, the value of the air routes.

The Americans have a statistical system just as finely tuned as ours. In fact, a large part of our statistics are shared and well known. They, too, have calculated the value of routes—of new routes which will be created.

Their calculations were even more precise than ours; as I explained earlier, when a route is created which penetrates deeply into the United States and it is given to Canadian carriers, the effect is to take traffic away from American carriers, traffic which was formerly internal traffic between the port of entry and the final destination. This effect is called a diversion of traffic, and any creation of new routes entails such a diversion.

For this reason, statistical calculations must take into account not only the value of the new route but the decline in revenue from other routes already in existence. Because all routes are inter-related in a complex way, negotiations are very difficult. Whether you give the route to American carriers, or to Canadian carriers, or you make it a two lane route, you change the financial complexion of the package. Slowly a formula is developed—a formula which will set out in dollars what you pay, what will be diverted from your carriers, what they will have to sacrifice and what you gain in exchange; the equation gradually becomes more and more subtly balanced. This equation is the basis of negotiations between countries whose statistical measurements have become extremely precise and detailed.

Political factors enter the picture only when it is a question of deciding between alternatives which are already delicately balanced.

I can truly say that the Americans, throughout the negotiations, were very much influenced by the financial situation of American carriers. Some of them are in very precarious position, and of course it was a serious matter for the Americans to reduce the value of routes which they felt were essential to the financial well-being of their carriers. We had the same concern for our carriers, and tried to defend their interests as much as possible, in order to ensure their healthy development, but we also had the interest of the Canadian public at heart.

The map which you saw shows clearly that the Western routes were unsatisfactory; therefore, we tried very hard to develop a co-operative system in this area.

In the final analysis, I think that the last obstacles were overcome, after five years of negotiations over an important issue, because of good will on both sides. Perhaps it was here that the good political climate came into play. The United States realized that the agreement was as important to American-Canadian relations as it was popular. I am speaking mainly of the agreement on routes which was worth the financial sacrifices necessary to secure it.

Senator Lafond: One last question, Mr. Chairman. Before these negotiations, we did not consider the practice of pre-clearing customs. The United States had a pre-clearance system here, but we did not have one abroad. Now we have the opportunity to develop such a system if we wish. Are there any indications that our carriers would consider taking advantage of such a system?

Mr. Conboy: Yes, we have received many letters from all the Canadian carriers, informing us of their interest in one route or another, including all the routes we won during the negotiations. I think that it will be important.

Mr. Dupuy: That is, the answer to your question is yes. Canadian carriers and Canadian companies are interested in having an arrangement for pre-clearing customs in the United States.

Senator Lafond: I presume that the Departments of Immigration and of Revenue are prepared to—

[English]

Mr. Butler: There is obviously a financial concern, and there is obviously the cost of moving staff, together with all the major changes involved in changing the pattern of the two departments, but that is in hand and is being considered very actively, and it is obvious that our air carriers would like to see it happen.

[Translation]

Senator Lafond: Thank you, Mr. President.

Senator Lapointe: As a follow-up to the question put by the Honourable Senator Lafond, I would like to ask if the "quiet diplomacy" could have been as successful without Mr. Marchand's threats, at an appropriate moment, on the subject of pre-clearance of customs. Would "quiet diplomacy" alone have succeeded?

Mr. Dupuy: I am going to reply in this way. I think the Americans considered pre-clearance in terms of dollars. When the American Congress decided to reduce the appropriation for customs services in order to stop pre-clearance of American customs in Canada, the American carriers went immediately to the Congressional sub-committee and said that such action would deprive them of an important advantage. The American carriers valued this advantage at anywhere from \$12 million to \$30 million. Since they themselves valued customs pre-clearance at between \$12 and \$30 million, the first thing we said to the American negotiators was that we had been giving them a present of from \$12 to \$30 million for years. Now it was time for us to stop making this gift, or to get something in return for it. I'm not sure if I should call that "quiet diplomacy" or "tough bargaining" but I think they suddenly understood what we were getting at. In fact, they recognized during negotiations that maintenance of customs pre-clearance deserved compensation.

I should also say that, while we speak of quiet diplomacy, these negotiations were hard. We had some very difficult moments. I once went to Washington, prepared to stay for fifteen days, with a delegation of eighteen people who worked on the negotiations with me; we had to return to Ottawa after twenty-four hours. This brought negotiations to a crisis point. Nevertheless, on the whole our American colleagues were considerate and friendly; we thought of the negotiations as serious work to reach an understanding. Problems which we solved and crises which we weathered were caused by a conflict of interest, but they didn't darken the good negotiating atmosphere at all. In short, we practiced quiet diplomacy in a matter of great importance.

Senator Lapointe: Were representatives from the air industry present during negotiations, or was the government only represented?

Mr. Dupuy: The Canadian practice was to have representatives of the industry with the delegation as observers at all negotiating meetings. We used them as advisors when we were preparing our bargaining positions; they were observers during the negotiations.

Senator Lapointe: Which is more important, the financial interests at stake or service to passengers?

Mr. Dupuy: Without trying to avoid answering the question, I would say that neither predominates. The cabinet strikes the final balance on this sensitive question. It is the civil servants' job to advise the ministers on what is possible and what is not.

The final decision involves a delicate balance of public interest and private financial interests. It is difficult to add any further statement since, it goes without saying, in such agreements both types are involved. Certain elements of these agreements satisfy financial interests and are concerned with developing a healthy air industry, but at the same time they have a profound effect on public interest, on the interest of the travelling public. Therefore, there is no definitive reply to your question; in the final analysis, the two aspects are tightly interwoven.

[English]

Senator Cameron: In the negotiations between the officials when the private carriers were sitting in, were the carriers tougher to deal with than the officials?

Mr. Dupuy: You mean the officials of the other side?

Senator Cameron: Yes.

Mr. Dupuy: They are defending their interests with the utmost vigour, and so are the people sitting across the table, which means in effect that the two negotiators, the American and the Canadian, are always negotiating on two fronts. Sometimes it is uncomfortable.

The Chairman: I would like to stay with this, if I may, for a moment, Mr. Dupuy, because I think it is the structure of the situation that is extremely interesting to all of us. You are there representing your various departments, and you have two or three carriers in Canada and they are there as observers, in effect. I presume observers do the same kind of thing at your negotiations as they have done at a number of other negotiations at which I have been present, inasmuch as they do not speak unless they are spoken to. Nevertheless, they are there and they are very observant. On the other side, you have the Americans with a great number of carriers and, in effect, a much wider spectrum of interests. So my questions to you are these: How structured were your meetings? Did you go with a prepared agenda? Was it prepared ahead of time? Was there much flexibility? Did these items just come along? And was there much intervention? Or was it a fully structured and prepared situation to which you would address yourself, deal with and then come back to over a period of time?

Mr. Dupuy: We had obviously to organize our work since the task was so big. It took four years.

What happened was that the American negotiator and I had a vision of what, roughly, could be achieved in each round. We thought of establishing a program for each round. In this respect the negotiation was much facilitated by the slicing of the cake, this method of negotiation to which I referred earlier. We could thus deal with small packages, rather than having to deal with the mammoth mass of routes and interconnections.

The answer, therefore, is: Yes, between each round, of which we had approximately 12, we had a program. These rounds lasted for various lengths of time, the longest approximately two weeks and the shortest I referred to lasting only approximately 24 hours.

In the course of these rounds we would identify problems, find the area of agreement and the area of gaps, we would, after two days or so have a vision of a series of gaps, following which we would start to bridge them. Throughout this process the delegation meetings and the negotiating meetings would alternate often at a very rapid pace. Sometimes we had 20 or 25 minutes of negotiation, then a recess and an hour of delegation discussions. This is the manner in which we proceed, but each time when we came to the table we had an idea of what we were attempting to achieve and there were some nuts to break on the table.

Senator Cameron: A secondary, minor supplementary related to this point: Did the manufacturers such as Boeing and Douglas sit in on these sessions?

Mr. Dupuy: No, only the carriers. The American practice was slightly different from ours. They are, of course, free to decide how they handle their delegation, but they found it easier to have only one representative of the whole carrier industry in the course of the negotiating sessions. However, they had something like 14 U.S. companies represented, travelling with this show and accompanying the American delegation. We only saw them socially and they were never at the negotiating sessions.

Senator Cameron: That may have been responsible for many of the things that happened, the social part.

Senator Macnaughton: Your story does not exactly sound to me like special relationships with the U.S.A., but more like "brinkmanship" if you took four years and you are supposed to be brothers-in-arms with the continental cake. I remember being in Washington in connection with other matters and meeting some of your delegates. They were either way up in the skies, or down on the ground, depending on the events that had taken place in the last few days. However, four years to meet a mutual convenience is not exactly quiet diplomacy, is it?

Mr. Dupuy: The Italians negotiated with the United States for something like 20 years, and the Irish for 22 years.

Senator Macnaughton: Yes, but we are blood brothers, are we not?

Mr. Dupuy: My experience in this negotiation is that it was played fair and straight and in an atmosphere which was enjoyable. This was a chess game, but the reality of our economic relationship with the United States is tough, based on hard, economic factors.

Perhaps the most significant aspect of this experience was that in the last resort we were able to reach a mutually beneficial agreement, and it seems to me that this is what comprises the value of the relationship.

Senator Macnaughton: I give you all credit, even more credit, perhaps, than you deserve, because I knew your father and he was a great man. Nevertheless, as a private entrepreneur, if I had to pay my negotiators for four years to reach a commercial agreement I would change them. I am being rude purposely.

Mr. Dupuy: I will not be rude, but you attract a comment which probably I should have made earlier. I make it because it really came from the American side. The Americans told us that we were involved in a process of erosion.

They were dead right. We started with a package which included on the Canadian side, as I mentioned, 17 routes and 18 routes on the American side. We created sufficient interest on both sides to "up" this package. The total amount of routes we talked about, was approximately 78 to 80. This took time because the carriers had to assess the value of all these routes and become interested in them. Then we put forward these very big requests for the long hauls. The Americans with respect to a number of them replied, "no". Then the process of erosion began.

I recognize that I deliberately used that approach and this is why it took perhaps a little more time than if I had precipitated a succession of crises. No-one will ever be able to tell whether this was the right or wrong approach. The only thing I can say is that it worked—after four years.

Senator Macnaughton: After four years' experience, is that the approach that we should use in the future—erosion rather than direct confrontation?

Mr. Dupuy: I think that each negotiation has its peculiar character. Were we to negotiate another air agreement tomorrow, we might find that we were in a completely different business. We negotiated the routes in four years. We negotiated charters, which in many respects was a much more difficult agreement, in about six months.

I say it was a more difficult agreement because it is the first of its kind. We had experience in negotiating routes over the years, and the Americans do it day in and day out. I refer to the negotiating techniques. They are well tried. We know how to proceed and where to go.

The challenge in this package was the size and complexity of it, but the methods of negotiation were well tried.

In the field of charter, we hardly knew, to begin with, what we were talking about. This is a new field in civil aviation and we had, as we proceeded, to understand the issues and invent solutions. They are all novel. This had never been done before. In fact, this is the first major international charter agreement in the world. Yet we achieved this in six months. I mention this to prove the point that each negotiation has its own character and should be viewed against the background which determines the pace.

Senator Macnaughton: Obviously, you are a chip off the old block.

Senator Carter: Mr. Chairman, I apologize for arriving late. I had to attend another function.

The Chairman: Thank you for coming.

Senator Carter: My question may have been answered before I arrived. I gather from what Mr. Dupuy has just said that this negotiation business is not a continuing process. Why should it not be a continuing process? Are there obstacles to it being so?

Mr. Dupuy: This is a very good question and it reaches very deep into the way of negotiating air agreements. We on both sides, the Americans and ourselves, have come to the conclusion through these four years—because we have learned a lot in the process—that what makes a deal feasible is the reaching up to a certain level of potential traffic. Then the route becomes negotiable, because there is enough money in it to interest carriers.

We could, of course, negotiate all sorts of routes which would never be flown, but this is not interesting. The

interesting thing is to be sure that aircraft will fly, and companies will not do it unless there is money in it. That is the hard facts of life.

So we have been able to reach a point of understanding where we can see when routes will become operational. We have also been able to reach a point where we can see when a route can be double tracked. Of course, when a route is double tracked, there is automatic equity, because it is hard competition. The one which offers the best service will get most or the better part of the traffic; but legally it achieves balance.

The suggestion was made in the course of the negotiation—and this has never been revealed—that, looking beyond the agreement which was signed today, Canada and the United States should develop an automatic system for bringing routes into being. This would do away, once and for all, with air negotiations between Canada and the United States.

We came to the conclusion, in the course of the negotiation, that this was too much of a bite to take and—this is a Canadian view—we felt that the proposed system may be biased in favour of the United States, because of the very nature of geography; we have little at the back of our main gateways, whereas they have the whole of the United States. The route would start with an American carrier on it; it would be only once the traffic had justified double tracking that Canadian carriers would move in. In other words, the whole system seems to give the edge to American carriers, and this is the reason why we did not pursue it.

However, it is somewhere on the table or on the shelf, and if we ever wanted to pursue this we would have a continuing system of development of routes. This would be a very bold and innovative process. It has never been done before.

Senator Carter: Are there any negotiations going on at present or contemplated in the near future?

Mr. Butler: not with the United States.

Mr. Dupuy: Not with the United States. I was going to say that for the time being we seem pretty well to have exhausted the possibility of negotiation, because this agreement is an agreement which covers a span of five years, and it is most unlikely that during this phasing-in period we will discover that we have overlooked some routes which could possibly be put into operation. No one knows what the future holds. The amount of traffic is growing all the time; populations are developing, cities growing. It is quite conceivable—indeed, I would even say probable—that sooner or later we will be back seeking negotiations with the United States.

Senator Carter: Mr. Chairman, we are supposed to be a committee or the future; we are trying to look into the future. Perhaps Mr. Dupuy could look into the future with us and give us some idea of what to expect in terms of negotiations on future routes with the United States in five years' time.

Mr. Dupuy: Mr. Chairman, I think the best advice I can give the committee is to look at those requests made by both sides which were not resolved in the last round of negotiations. We did not get all we wanted. We had to draw the line a little below our hopes—I would even say a little below our expectations. As was the case with the three

routes left unresolved at the end of the 1966 negotiations, it is my hope that in future rounds of negotiations we would pick up the routes on which we were unable to come to an agreement during the last round. Including American requests, I would say there are 10 or 12 routes in relation to which we were unable to reach agreement, and I would be quite happy if we picked up those routes when we negotiate again with our American friends.

Senator Carter: Mr. Chairman, Mr. Dupuy earlier made the point that the Canadian team was negotiating with the open space of the Arctic at its back, whereas the Americans were negotiating from a position of strength with the American hinterland and the tropics at their backs. In view of that, I am wondering whether any criteria were arrived at as to what would be fair and equitable.

Obviously, the United States has the advantage because of their greater population and their geographical position, and they would naturally want to take advantage of that position of strength. In view of the apparent advantages which the United States has over Canada, was any criterion arrived at as to what would be fair and equitable—say, two to one, three to one, or something like that?

Mr. Dupuy: Mr. Chairman, we faced this issue very squarely in the charter negotiations. However, in the route negotiations we did not face it as those negotiations were carried out under the so-called Bermuda principle; that is, once a route has been awarded to a country, that country can put as many aircraft on that route at whatever frequency it desires—in other words, it is absolutely free to operate that route to the best of its advantage. Therefore, it was not possible in the negotiations to limit the use of routes in order to give the advantage to one side over the other. We did manage to double track a number of these routes, and I am happy to say that on those routes which have been double tracked in the past the quality of Canadian airlines services has enabled the Canadian carriers to get the better share of the market. It is our hope that what has been true in the past will continue to be true in the future.

As I said, we did face this issue in the charter negotiations, and we did so in a very simple way. I argued that since Canadian carriers has developed the market and the market consisted of Canadians who wanted to escape the Canadian winter and enjoy the southern climate, we should therefore have the lion's share. The American negotiators argued that they happened to own that piece of real estate down south and that they would make us pay for it. Eventually, the decision to share the market was arrived at and sharing arrangements agreed upon. I gave you the percentages earlier. They do favour Canada. It seems to be fair, considering the efforts put into the development of that market by Canadian carriers and the fact that it is a Canadian market.

Senator Carter: When you look at the last diagram, taking into consideration its being superimposed on the previous one it is a tremendous improvement. Are there any figures that you can give the committee to show the relative proportion of *quid pro quo*, the dollar value of what we get out of those routes compared with the dollar value of what we gave away?

The Chairman: I think Mr. Dupuy answered that question in a slightly different way, but he might care to amplify it at this time. I believe that is on the record, in part.

Mr. Dupuy: I gave our estimate of the size of additional revenue when we entered the negotiation. The additional gross revenue was calculated when we entered in 1969 at \$115 million to \$120 million. This has grown considerably in the meantime. I find it difficult to give a precise figure, because this involves a great deal of statistical construction. We are looking five years down the road. This is why I have so far tried to avoid giving too precise figures, because they could be quite misleading. They depend upon the state of the economy on both sides of the border, the passenger flows, the stimulation of traffic by the creation of new services, and therefore they are guesstimates and not firm figures. I think I would risk saying that the total business that will be generated that is to be shared between Canada and the United States will be well over \$150 million a year. I stand to be corrected by my colleagues who are closer to the figures.

Mr. Butler: For 1980 the answer is that the figure will be close to \$0.5 billion, shared half and half.

Senator Carter: Fifty-fifty.

Mr. Dupuy: At the end of the decade you have about \$0.5 billion. The precise share that will go to Canadians and Americans will be a matter for competition. Our assessment, when we came out of the negotiation, was that the route package leaned on the Canadian side. We were quite determined that it should be so, to compensate for pre-clearance. These are very delicate judgments. We may have underestimated or overestimated; we are looking so far down the road. By and large, after most careful and expert consideration, we came to the conclusion that the package was a balanced one. Obviously, it would not have been accepted by the Americans if it had been grossly imbalanced in favour of Canada.

Our analysis also suggests that when we started in 1969 the Americans had, in terms of legal rights, an advantage over Canada, which we attempted to redress and, we believe, managed to redress. However, the competitive performance of Canadian carriers was really quite good and managed to tip the scale and left us roughly in balance with the United States, despite the imbalance in rights.

The Chairman: Are you satisfied with those figures?

Senator Carter: Thank you.

Senator Cameron: Senator Carter referred to the committee on the future. On that map, Houston-Denver-Calgary-Edmonton-Fairbanks is the shortest route to Europe. I believe that Hughes Air West had an entry into Calgary and Edmonton, but wasn't that taken out? The idea they had in mind was to go right on through later, but to pick up passengers in Calgary, Edmonton and Denver and all the rest of it.

Mr. Dupuy: We are guarded against traffic being picked up by the United States carriers onward to other countries, because the rule of the game was that we would deal only with trans-border traffic in other words, technically third and fourth, but not fifth; fifth were excluded.

There was one route which was actually a fifth route for cargo. We turned it down. The American request was not met.

Just to be complete on that aspect, we do, however, have the potential for a so-called "sixth freedom", which is really not recognized but exists in reality. We could pick up traffic in San Francisco and Los Angeles and bring it to

Edmonton or Calgary, which is a third and fourth, and then from Canada fly to Europe over the Pole. This would be feasible.

Senator Cameron: Or the Pacific.

Mr. Dupuy: Or the Pacific, yes. In the same way, the Americans can, I suppose, pick up traffic in Vancouver, bring it to Honolulu, since they have the Vancouver-Honolulu route, and then from Honolulu fly it onwards, because this would not be a fifth. It is the so-called sixth freedom.

The dollar value of the so-called sixth is extremely difficult to assess. Neither the Americans nor ourselves have the necessary statistical tools to place a sharp value on these things, because before the agreement came into force none of these routes was flown. So it is impossible. We do not have a statistical base to assess the value of the sixth freedom. We do know it exists and we feel that whatever they pick up in terms of sixth we pick up, too, so we do not see any serious imbalance there.

Senator Lapointe: Mr. Dupuy, do you consider that agreement to be the result of a continental approach rather than the result of two national approaches superimposed?

Mr. Dupuy: I would think that the framework was the Galbraith report, and the Galbraith report was continental in concept.

The specific manifestation of it was that we convinced our American friends not to look at short hops across the border—in other words, at short trans-border flights—but at deep penetration routes; and whenever we were dealing with short hops across the border we insisted that we should look not only at traffic originating in the American gateway or the Canadian gateway, but also at traffic behind the gateways. The traffic behind the gateways—that is, stretching anywhere in Canada behind the Canadian gateways and anywhere in the United States behind the American gateways—was taken into account. This was a very significant concession on the part of the Americans, and because of it we looked at the major traffic flows throughout the North American continent trying to fit routes to meet the requirements of these traffic flows. In brief, it was both continental, and fitted to the needs of the public. The outcome was a marriage between these two fundamental considerations and the dollar and cents value of the route.

The Chairman: How did we come by the Galbraith report? Was it presented to us by the United States? I understand it was an advisory report produced for President Kennedy.

Mr. A. R. Conboy, Director, Policy Implementation, Ministry of Transport: That is correct. I am afraid my memory fails me on the inception of the Galbraith report.

Mr. J. E. Seal, Policy Advisor, Atlantic Region, Ministry of Transport: President Kennedy asked that it be carried out, and it was made public.

The Chairman: It was a public report.

Mr. Seal: Yes. Our Prime Minister also had an agreement with the president that this should take place for the benefit of both countries.

The Chairman: This was Mr. Pearson, was it, at that time?

Mr. Seal: That is right.

The Chairman: Thank you very much.

Senator Macnaughton: We seem to have been talking a great deal about south of the border, and how lucky we are to get their routes, and what-not, and I suppose we are. Is the emphasis on passengers, or passengers and freight? Because I understand freight is increasing much more rapidly than passengers.

Mr. Dupuy: The routes cover both passengers and freight. We have dealt mainly with passengers. We do not have with the United States, as yet, any clear vision of freight routes on the North American continent. This is something for the future. The Americans raised with us the problem of a cargo route, and in looking into the problems, and in view of the interests involved, we reached a much greater appreciation of the lack of understanding and knowledge in Canada and the United States about what happens to freight. Personally I believe this is an area which will be pursued in coming years.

Senator Macnaughton: That is my second point. If you look north of the border, surely, with the development of the Canadian north—the hoped-for development, shall we say, in the northwest and east, and the Arctic development, in terms of iron, gas, oil, et cetera—the supply routes could be extraordinarily important in the future, because taking ships up through the ice, and so on, is not as economic as flying the freight by air. It seems to me we have an ace in the hole with regard to future negotiations. Was that discussed?

Mr. Dupuy: We did touch the subject on the charter agreement. This is one argument we used to reduce American ambitions on the passenger markets. We pointed out to them that in the future there would be very valuable rights in terms of freight moving, I understand, largely in these outlying areas, on chartered aircraft more than regular schedules.

Mr. Butler: I could say something about freight, and this is something which makes it so hard to calculate. Freight currently moves at the convenience of passenger aircraft. You would have thought, some years ago, that the full freighter aircraft would have taken over a large part of the freight market so that freight would move, really, at its own convenience, and there would be an air freight distributing system which would be unique to freight. Unfortunately, with the new generation of wide-bodied aircraft, which are now increasingly capable of carrying very large quantities of freight, this means that the carrying of freight is still a marginal activity for the airlines in the sense that they price on the margin, and this makes it very difficult to get a freighter system to go where the aircraft carrying full loads of freight is expected to go. Freight sent in the belly of a 747, which is very large, pays only the marginal cost. So, because of the technology of the aircraft the freight industry has not really settled down yet, and it is very hard for us to tell where it is going or what pattern it is going to follow.

Senator Lafond: Once agreement is reached on double-tracking, do I understand that competition on the route is left strictly to the carriers—and obviously it is in terms of service, public relations and all that—in terms of frequency of coverage and in terms of equipment assigned to that given route, or is that part of the agreement and is there or can there be any inherent advantage to one party or the other in an agreement on double-tracking?

Mr. Dupuy: The double-track routes provide for complete competition and it is left to the carriers to compete freely between themselves where there are two. Obviously, when there is a single route the carrier has a monopoly. It is a one-track route and the carrier suits itself. Of course, this is subject to pressure from the public and so on.

Mr. Seal: There is a further point on that, Mr. Chairman. When a carrier operates a route it must file its schedules with the regulatory body of the country it belongs to, and in our case we file schedules with the CTC. The CTC will then safeguard these schedules and see that they are operated at a regular frequency, and the carrier has no choice, once he has registered his schedules, to operate outside that. So, as I said, it is incumbent upon the airline to register its schedules with the regulatory body of the country it belongs to—in our case, the CTC. Once this is done, the CTC keeps a watch to see that this schedule is observed and that the airline operates in the public interest. If, for instance, there is a large demand on the part of passengers on a particular route and the airline is not performing properly and it is not operating sufficient schedules, then the CTC will bring pressure to bear to increase the frequency of its services by that airline.

The Chairman: So there is a monitoring system?

Mr. Seal: Oh, yes, there is a regulatory watch the whole time.

Mr. Conboy: And the public can complain to the CTC if the service is not adequate and then the CTC will investigate.

[Translation]

Senator Lapointe: Mr. Chairman, to bring up a different topic, was there any discussion during negotiations of such things as Air Piracy between the two countries, or of Major Air Disasters, or were these subjects completely beyond the scope of your talks?

Mr. Dupuy: There are entirely different questions which were never touched on in our negotiations.

Senator Lapointe: Are there agreements on these questions between the two countries?

[English]

Mr. Butler: There are continuing discussions between the air safety authorities of our ministry and their colleagues in the United States, both as to safety in general and all problems of hijacking.

The Chairman: But are they liable to be concluded by an agreement, or is it a tacit understanding?

Mr. Butler: This is an on-going process in which there are continuing discussions.

The Chairman: I would like to ask Mr. Dupuy about the energy crisis of last fall: Did you feel that this was a real stimulus to your negotiation? Did you feel there was an impetus on the United States side?

Mr. Dupuy: No, Mr. Chairman. At that stage, when the energy crisis was upon us, we were very close to an agreement. Some feelings were expressed that this new factor might complicate the final resolution of issues, but that did not prove to be the case and we were able to conclude without worrying about that factor.

Senator Carter: This is almost a supplementary question to yours, Mr. Chairman: One of the witnesses stated that with respect to air cargo the pattern has not quite crystallized yet. Looking again to the future, do you see Canada having any advantage in air cargo because of our ability to produce our own oil fuel for the aircraft? Is there any edge for Canada on that score?

Mr. Butler: I could probably say something about the Gander situation, where the so-called TOPS program is in operation, by which we are attempting to go out of our way to encourage Seaboard and other American carriers to use Canadian facilities and, in due course, break bulk and redistribute cargo from there.

There is also a hope that as Mirabel develops it can become an effective air cargo centre for redistribution into the United States. An interesting aspect of Mirabel is that it is within overnight truck radius of a number of important places in the United States.

The larger part of the problem is a matter you may have discussed when speaking with representatives of other departments. That is the problem of documentation and customs access to the United States if the lots are broken out in Canada and shipped down by truck into the United States. We have given a great deal of thought to that, and both the Canadian and Quebec governments are considering it in the context of Mirabel.

Senator Carter: In the negotiations that were carried on for four years, I presume there was a political input in addition to input from the carriers and the controlling agencies. How did this compare? Was there very much political input, as compared with the other two?

Mr. Dupuy: The political input is related to public convenience and the regional interests of some of the Canadian cities; they definitely were taken into account in developing negotiating packages. As I said earlier, the negotiating positions and instructions to the delegation were determined by ministers, who weighed these political factors very carefully before instructing the delegation on how to proceed.

Senator Carter: I remember when we were discontinuing the free clearance in Toronto and Montreal that it was on-again-off-again and on-again several times. Was the public input the deciding factor in that, or was it straight economics?

Mr. Dupuy: Mr. Chairman, we had two elements to weigh: on the one hand, as I alluded to earlier, the leverage which could be exercised as a result of termination of pre-clearance; and also public convenience. The public is in favour of pre-clearance, and this is a political factor which has to be weighed, as well as the blow to Canada-U.S. relations. It would obviously have been a detrimental factor if this long-standing arrangement, which has worked generally satisfactorily, were cancelled.

As a matter of record and history now, the reason it was on-again-off-again was largely because of the ebb and flow of the route negotiations. The deadline had been set, and it became quite clear that the Canadian delegation in the route negotiation needed more time to reach a settlement.

I happily could report to ministers that we were still progressing and that there was room for reaching a settlement.

It is in the light of this prospect of good progress towards an eventual settlement that the ministers extended the deadline at the request of the negotiators.

We came very close to the brink because they extended it once and, understandably, they were reluctant to extend it further. In negotiating terms, it would have created the impression, through successive extensions, that we did not mean business. So we really set a firm deadline.

The pre-clearance was to terminate at noon on a certain Monday, and at noon I was still negotiating in Washington. I suggested to Mr. Marchand that he should stop the clock until 6 p.m., and I concluded the negotiation at 6 p.m.

Senator Carter: You mentioned that this service was worth \$30 million to the Americans.

Mr. Dupuy: I was referring to estimates given to congressional committees by the American industry. We had different estimates. Obviously, they were, at the time, very anxious to impress Congress of the need to retain pre-clearance, and by giving such high figures they created embarrassment for their own negotiator.

Senator Macnaughton: I made two brief notes here; I hope they are not too simple. I presume that it is obvious the interdepartmental co-ordination and co-operation, in the form of team spirit, was, in fact, very good, as one would expect from Canadians outside of Canada negotiating for their country. The answer is yes, I take it.

The Chairman: I think the result demonstrates that.

Mr. Dupuy: I think I will leave my colleague, Mr. Butler, to answer the question, because I am a prejudiced party in this. What would be your judgment, Mr. Butler?

Mr. Butler: I was not really very much involved, except at the very end of the Canada-U.S. negotiations. My job really was to chair the subcommittee of the main interdepartmental committee on civil aviation, which is the forum in which officials discuss preparations for negotiations, preparation of the negotiating positions and the alternatives open to the government, which are then put up to the ministers for their consideration. Obviously, this is the working subcommittee at which interdepartmental views are considered, alternatives examined and common approaches developed. I am personally very pleased with the way that works and very proud of the committee.

Senator Macnaughton: Thank you. My other question is really for information. What is the overall effect of the conclusion of the air agreement generally on Canada-U.S. relations? Again, the answer seems to be obvious, but you must have some idea.

Mr. Dupuy: Mr. Chairman, I hope that it has a favourable effect. Listening to Mr. Marchand and Mr. Sharp this afternoon, and listening also to the comments made by the American ambassador, it was clear that this agreement is very much welcomed by both sides. It should permit a greater flow of travellers, and more convenient service which is important to business as well as to those who travel for pleasure. It will also remove, for the foreseeable future, what could have become quite an irritant in Canada-United States relations. Failure to reach agreement would have left us with a pattern of air relations clearly outmoded and not favourable to Canadian carriers. The elimination of pre-clearance, had we failed to conclude the route agreement, would have been an irritant, and would

have eventually brought about the failure of the charter negotiations.

The American team made it quite clear that they were not prepared to tolerate indefinitely a Canadian monopoly of the charter market. So we would have been faced, sooner or later, with some restrictive measures on the ability of Canadian carriers to operate their charter market in the United States.

In brief, if one looks at the inevitable consequences of failure, they amount to quite an unpleasant picture. Success has removed, as I said, these potential irritants for the foreseeable future.

Senator Yuzyk: In these bilateral negotiations was there any consideration given to Canadian routes linking us with, say, Mexico, because of the fact that we would have to fly over United States territory?

Mr. Dupuy: Inasmuch as fly-over is concerned, we do not need any bilateral agreement with the United States. We have the right of fly-over through the ICAO convention, the multilateral convention. As to the establishment of a route going from Toronto to Dallas and then on to Mexico, this would have been outside the scope of the negotiations. We had to confine ourselves to the trans-border market. There was no need to negotiate fly-over rights.

Senator Yuzyk: In negotiating air routes, therefore, you really did not bear in mind continental needs, as such? This was strictly bilateral, was it not?

Mr. Dupuy: They were bilateral negotiations, yes, relating to Canada and the United States, and not traffic flows to other parts of the world.

Senator Carter: Do any indirect benefits from these bilateral agreements between Canada and the United States accrue to other carriers affiliated with Canadian airlines? For example, Air Canada has some relationship with BOAC, as well as other airlines.

Mr. Dupuy: No, they do not, senator. The negotiations only covered American and Canadian carriers. I do not think foreign carriers will be affected. There may be one exception, which is Air France rights between Montreal and Chicago. In our bilateral agreement with France, several years ago we granted fifth freedom rights from Montreal to Chicago. Air Canada already has rights from Montreal to Chicago. Since the Americans will now have the right to fly that route we cut down on the available traffic for Air France. I should think this is marginal, and we did not take this into account in the course of negotiations.

I should like to add more precision to one statement that I made earlier. I said that we only dealt with third and fourth freedoms, that is with trans-border traffic. There was one exception! the rights enjoyed by CP Air on the Honolulu route, because the route in the bilateral agreement, the existing one, the one before the last negotiation, is described as a route Honolulu and beyond to Australasia. We had considerable discussion about these words—Australasia and beyond from Honolulu. This does involve fifth freedoms. This was the only route that involved freedoms other than third and fourth. In the event, nothing was done and the Canadian route Vancouver-Honolulu remains as described in the earlier agreement.

The Chairman: I was wondering whether you would be good enough to help us with our vocabulary and our

understanding of it, when you talk about fourth, fifth and sixth freedoms. Would you be prepared to give us some kind of supplementary document that we could annex to the record? Would that be quite simple? It would certainly be helpful to me. Do honourable senators agree?

Hon. Senators: Agreed.

Senator Cameron: We could make it an appendix.

The Chairman: Yes, some kind of appendix.

Note: That information follows:

THE FIVE FREEDOMS OF THE AIR

In almost all cases, the development of Canadian air services has been against the background of the Paris and Chicago Conventions of 1919 and 1944 and related instruments which established the principle that each State has complete sovereignty in the air space over its territory and that there are five purposes for which a civil transport aircraft may wish to penetrate the air space of another country.

These five purposes led to the so-called "Five Freedoms of the Air" and may be defined as follows:

1st Freedom: the right to fly across a country without landing;

2nd Freedom: the right to make operational stops for fuel and servicing;

3rd Freedom: the right to discharge passengers, mail and cargo, coming from the home country in a foreign country;

4th Freedom: the right to load in a foreign country, passengers, mail and cargo destined for the home country;

5th Freedom: the right to take on passengers, mail and cargo in a foreign country destined for any other third country and the right to discharge passengers, mail and cargo coming from any such third country.

The first two freedoms are included in the International Air Services Transit Agreement and are therefore automatic on a multilateral basis between parties to that agreement. The third, fourth and fifth freedoms must be negotiated on a bilateral basis.

Senator Macnaughton: We might also conclude by saying that we do have a transportation policy which is quite effective.

[Translation]

Senator Lapointe: Did you get onto the subject of tariffs, or are tariffs beyond your scope?

Mr. Dupuy: Mr. Chairman, this question is entirely outside the negotiation of routes. Tariffs, I believe, are decided by competition, but perhaps I should ask my colleagues if they have anything to add at this point.

[English]

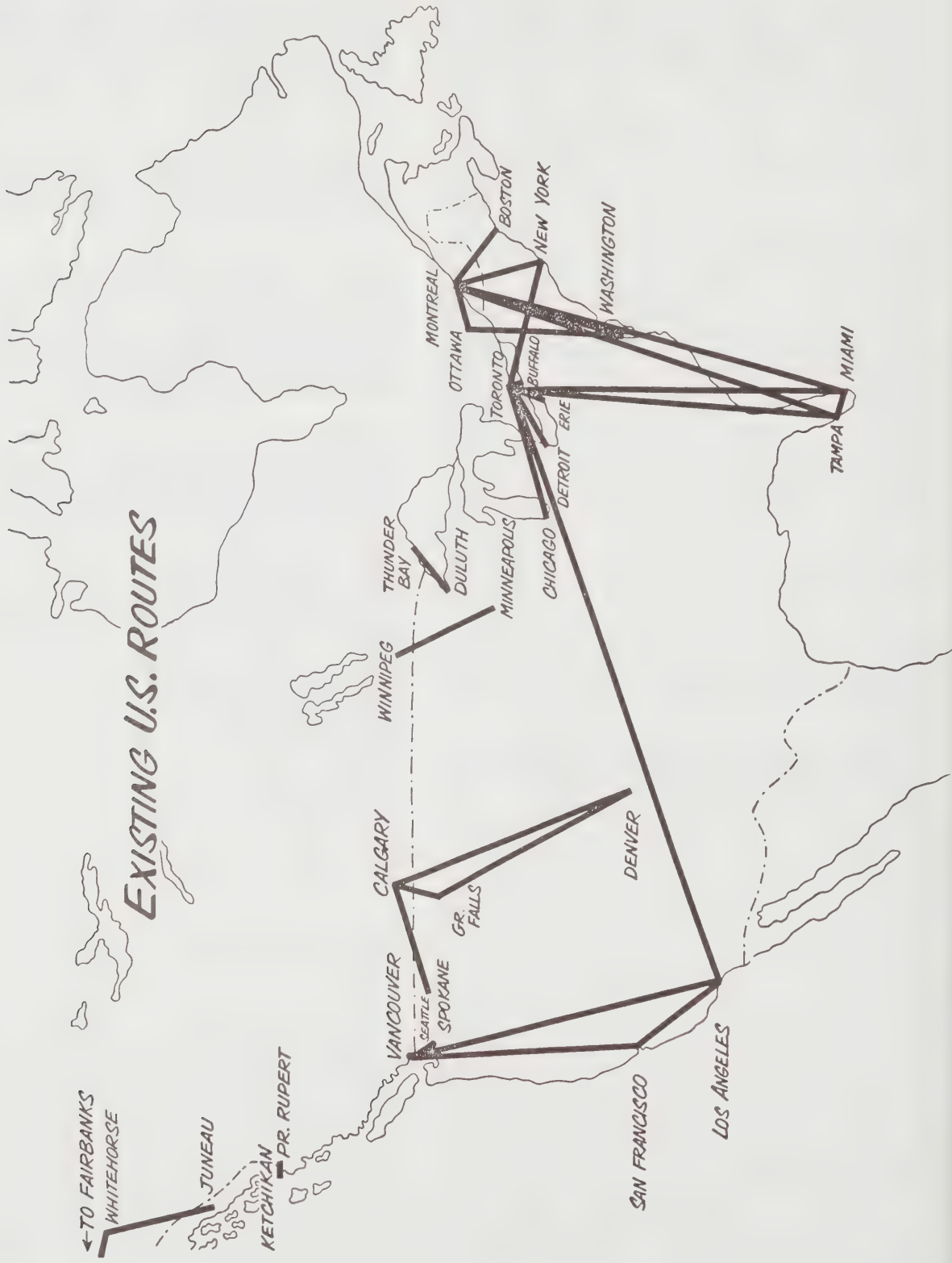
Mr. Butler: The tariffs are filed with the CTC. As you know full well, the North Atlantic tariffs and most of the international tariffs are filed and agreed upon with IATA. They are kept altogether outside the bilateral negotiations.

The Chairman: It has been a very long day for parliamentarians. I am sure it has been a very long day for you and for your group. I would like to congratulate you, because I am sure it is a very signal day in your life to have achieved this agreement. It may very well have taken four years, but it seems to me that on balance it is a great achievement. We congratulate you, and thank you very much for coming tonight and bearing with us for such a long period of time. We also thank you very much for bringing the first team. It is very nice to see you all here. Thank you.

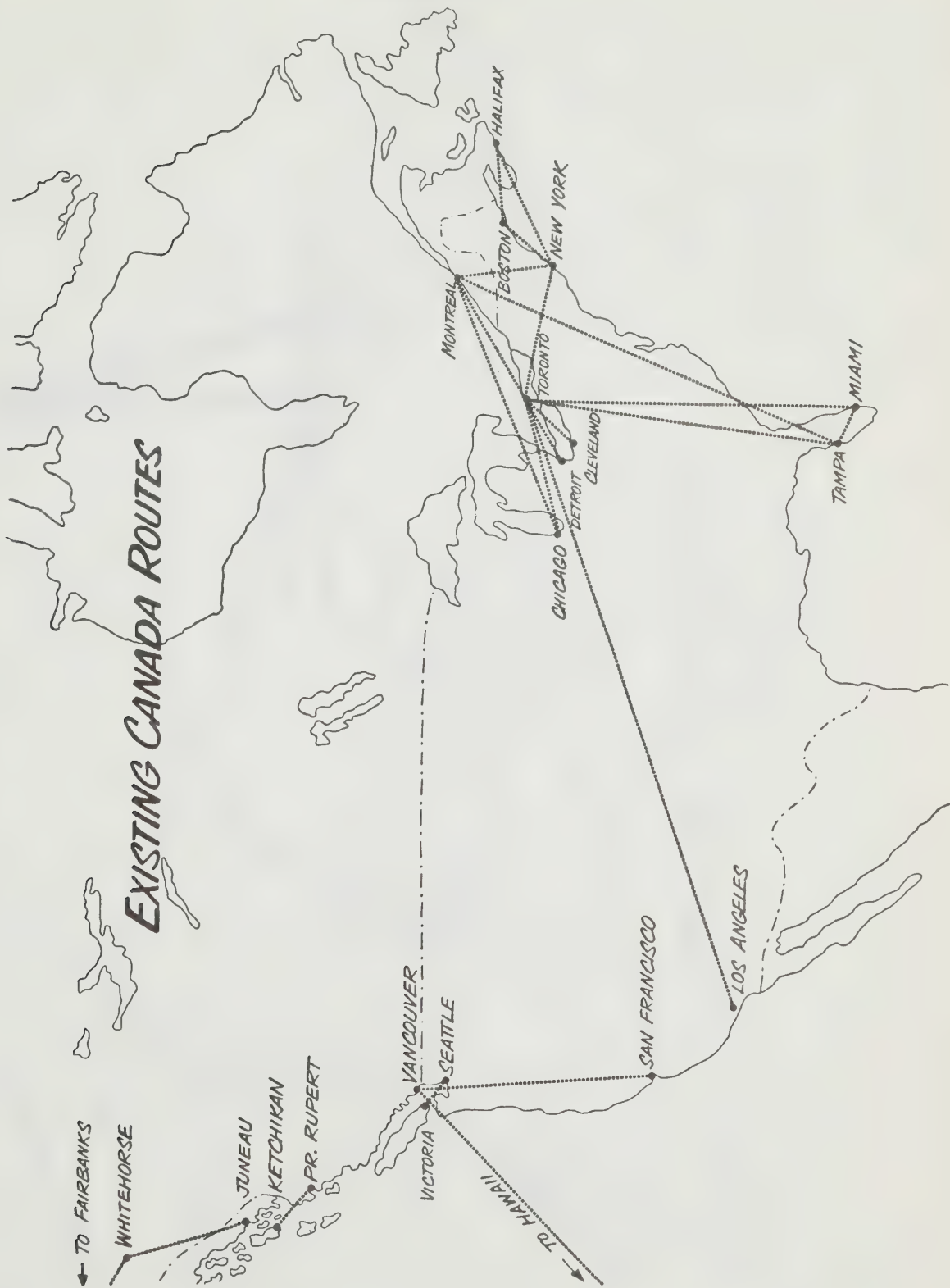
Mr. Dupuy: Thank you very much, Mr. Chairman.

The committee adjourned.

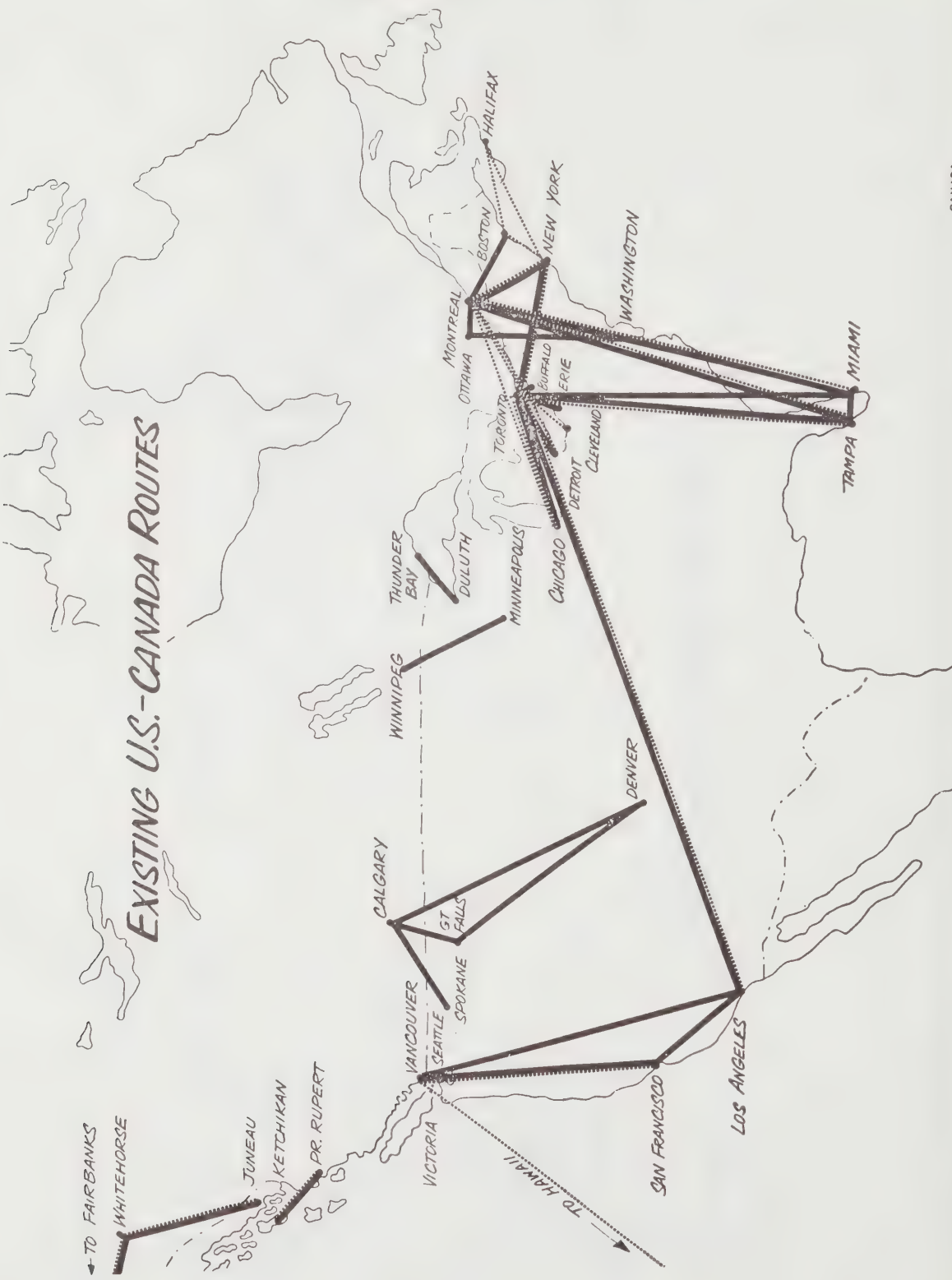
APPENDIX "A"



APPENDIX "B"

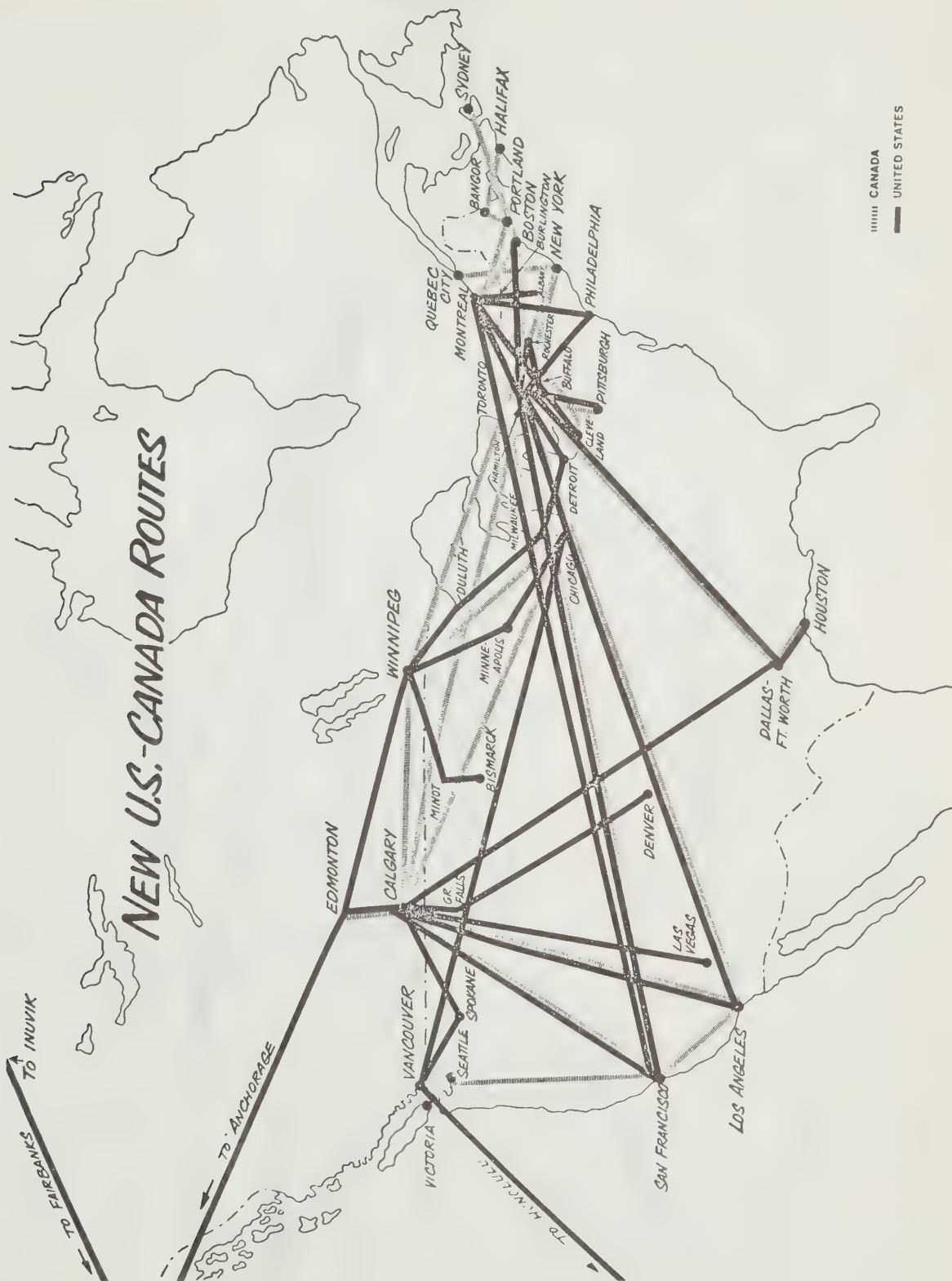


APPENDIX "C"

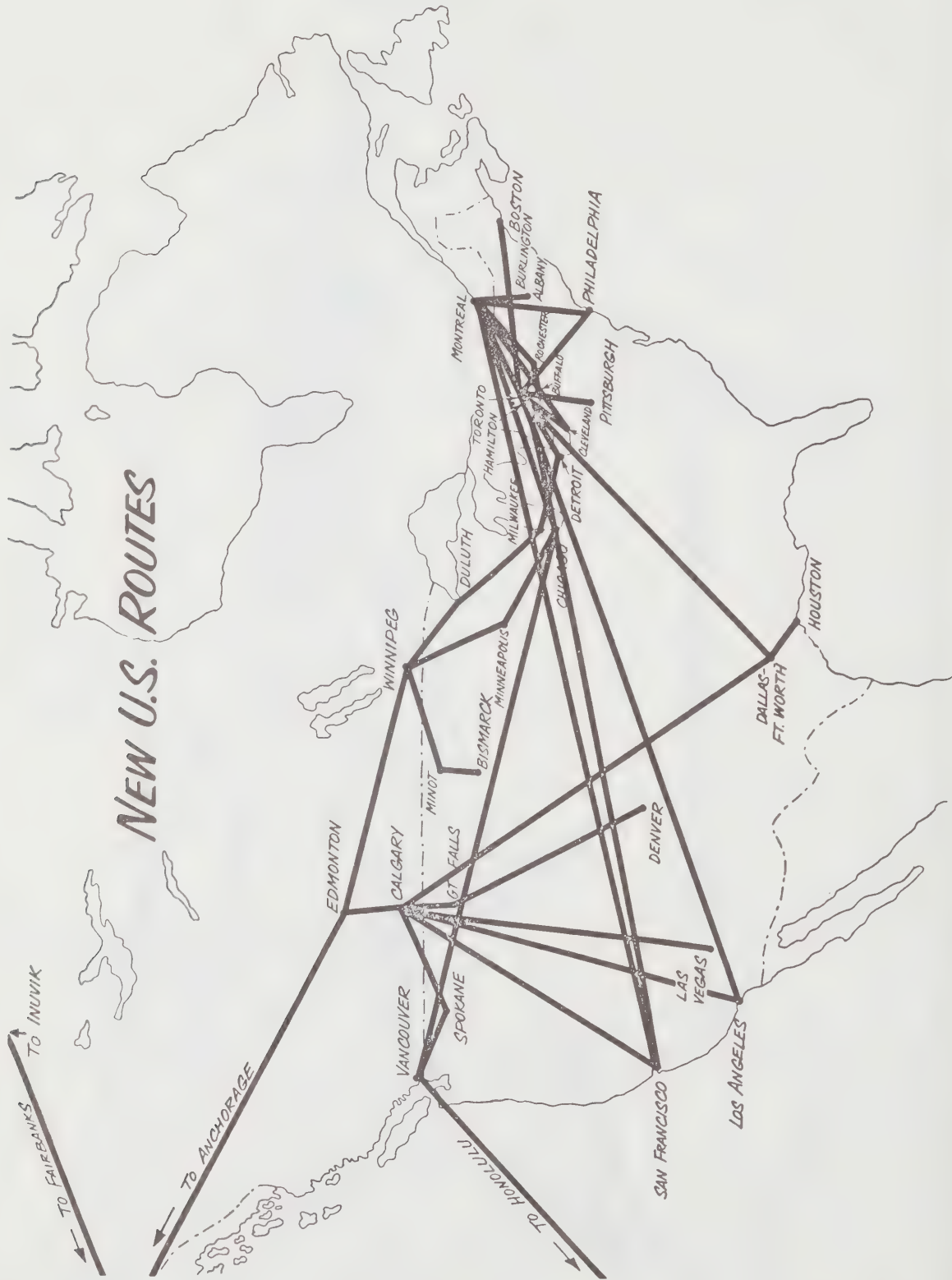


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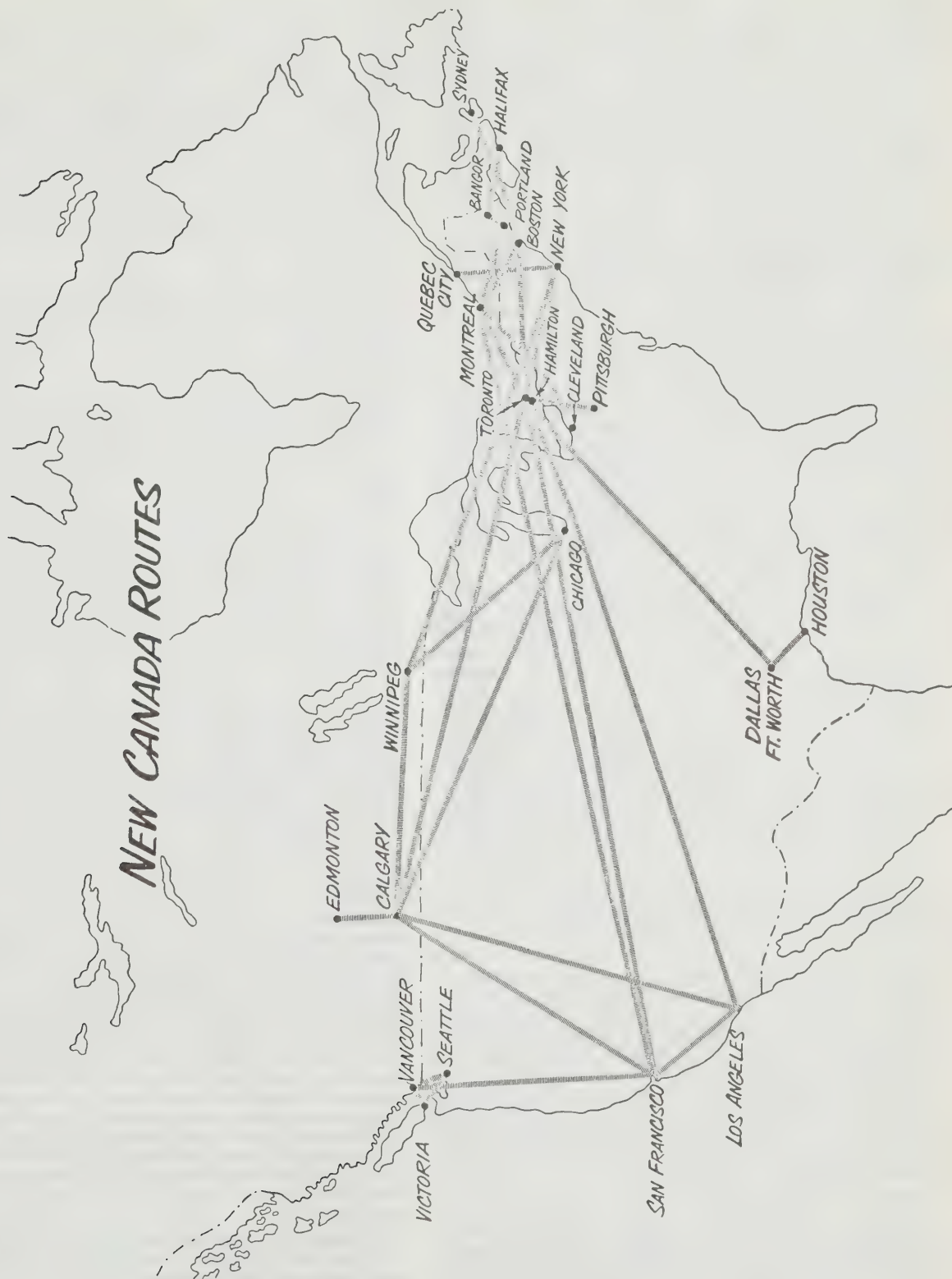
APPENDIX "D"



APPENDIX "E"



APPENDIX "F"



APPENDIX "B"

EVIDENCE

NOTE: In accordance with a Resolution of the Committee dated December 5, 1974, these proceedings are printed with the agreement of the witnesses concerned.

Ottawa, Wednesday, May 1, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 8 p.m. to examine Canadian relations with the United States.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, tonight we are asking a most difficult task of our witness, Dr. Arthur Smith, the President of the Conference Board in Canada. In a sense we are asking him to take the place of a number of individual witnesses, whom perhaps we should hear were we to explore the subject in detail. What we want to hear about this evening are the numerous cross-border links that take place outside the bilateral governmental mechanisms for conducting relations. These non-governmental contacts take place in many ways—for example, through professional associations organized on a North American basis, in the board rooms of multinational firms, at conventions of international trade unions, in the millions of tourist contacts of Americans and Canadians across the border, in university exchanges and societies—and in the sports field. In other words, they are the everyday people contacts between Canadians and Americans, whether it be for business or for pleasure.

Although Dr. Smith has said to me personally that he is not an authority on this vast and complex subject, it is the opinion of many people that there is no Canadian better qualified to try his hand at setting out some of these issues than Dr. Smith. We are most grateful to him for accepting this challenge.

An economist trained in Canada and the United States, Dr. Smith has worked in the Federal Reserve Bank in New York, with the Private Planning Association of Canada, where he was Director of Research of the Canadian-American Committee and Secretary of the Canadian Trade Committee. From 1963 to 1971 he was with the Economic Council of Canada, first as Director and then as Chairman. He was appointed President of the Conference Board in Canada in 1971. In all of these positions he has had the opportunity to become a specialist in Canadian-American economic relations, and to observe the constant interaction of Canadians and Americans at all levels and in its myriad forms.

The Conference Board in Canada, of which Dr. Smith is the President, is an organization with a broadly based membership, including industries, labour organizations, farm organizations, government departments and universities. It provides information in economic and other relevant fields for decision makers. The Canadian branch, an affiliate of the larger American organization, has complete autonomy in shaping its own program, and at the same time has access to all information and material from the Board in the United States, as well as from European and other overseas members of the Board.

I now call upon Dr. Smith to address us.

Dr. Arthur J. R. Smith, President, Conference Board in Canada: Thank you, Mr. Chairman. Honourable senators, it is personally a privilege and a pleasure to have an opportunity to appear before you in this very important set of hearings. My general understanding is that you may be spending a substantial part of your time in these hearings looking at various aspects of intergovernmental relation-

ships and some policy issues that relate to Canada's relationship with the United States, but that my task this evening, as you have indicated, Mr. Chairman, is to try to focus some attention on the very complex and very varied set of private relationships that exist between Canada and the United States.

I must admit that this is, frankly, a fairly formidable task, and I do not profess to have any great competence in this vast field.

What I thought I would try to do is to draw largely on my personal experience and provide you with some views which, in their very nature, are very much personal and impressionistic.

Let me begin by focusing first, as a preamble, on four basic facts and issues. The first is drawn from the eloquent words which President Kennedy used when he addressed the Canadian Parliament a number of years ago, when he stated about the two countries: "Geography has made us neighbours; history has made us friends; economics has made us partners, and necessity has made us allies."

I think these are important realities. There are some Canadians today, I think, who find that some of these are rather uncomfortable realities to live with. Nevertheless, they are realities and my view is that unless our approach and policies, regarding our relations to the United States, are based on these realities, in the long run the outcome of our actions will not really serve our broader national interests or human interests very well.

The second point is again a very general one. It is the rather trite one that people refer often these days to the fact that we live in a "shrinking world", one that is being made progressively and rapidly smaller by technological change in transportation and communications, by new methods of technology transfer and by many other factors. The obverse to that coin is, of course, that we live in a world of rapidly-growing contacts, rapidly increasing and speedy contacts between peoples, between countries, and that these contacts are growing enormously in range and complexity.

This has obviously been true in the intergovernmental sphere and I think it is even true in terms of private contacts, and these ranges of contacts—the ones to which I am addressing myself tonight—are really very hard to categorize and delineate, let alone to assess from the standpoint of their broader relevance and implications.

I suggest that in many ways these may be even harder to assess than the growing range of contacts which we have within our own country—say, between different parts of Canada, between different municipalities within a province like Ontario, between different elements in a community in a city like Ottawa. We all have some ideas, some impressions and some facts, but it is rather hard to comprehend in any basic way what these really amount to, or even in many ways to delineate them and categorize them appropriately.

I suppose I am merely reinforcing once again the difficult task which I have agreed to take on in responding to your request to appear before you.

Third, it seems to me that there are a number of critically important issues which need to be kept firmly in mind in a subject of this kind. Let me mention three. The first

one is that there is widespread interest, knowledge and awareness among Canadians about developments, problems and events in the United States. But this is a rather one-sided relationship. In the United States there is not a comparable set of "awarenesses" of developments in Canada. Moreover, in recent years in the evolution of our own approaches to our national concerns and problems in Canada, we have tended, I think, to become somewhat more nationally oriented in our approaches, and in the process, I believe, in some general way rather more critical of some of the developments and events in the United States. In contrast, in the United States knowledge and awareness about Canada is largely lacking. In other words, there exists a sort of ignorance in the United States generally about Canada. At the same time, this is generally much more neutral—indeed, perhaps even benevolent at times—than are Canadian attitudes generally about the United States. And one of the questions I would raise is whether that kind of relationship will continue under circumstances in which the United States too, in some ways, is coming to look more carefully at its own national interests, and when a great many people in the United States in different places are becoming much more aware that Canadians are looking more closely and carefully at their own national interests.

A third fundamental issue which needs to be kept in mind is that on the whole the United States has in fact played an enormously constructive and central role in the evolution of the post-war industrial world, and in the kind of economic progress that we have been experiencing in the past 25 or 30 years. Certainly, we have had no parallel to the kind of economic progress we have had in the last three decades since before the First World War. In fact, as we look back now on that experience prior to World War I, we find that it was less sustained, more uneven, more subject to financial panics of one kind or another. So, recently, we have had an almost unique experience in the twentieth century, and I think it has been quite clear that to a very large extent it was the dominating economic position of the United States 30 years ago, its willingness to accept a very large responsibility for leadership in establishing new institutional arrangements to carry the world through into a new period of progress and prosperity, that in fact accounted for this successful result.

And, of course, one of the things which we are witnessing is that with the changes which have been taking place, the United States is no longer in a position to play such a dominating role in the world. Nor do a number of other countries, I think, feel as comfortable about the United States playing as dominating a role as it did earlier. And these kinds of shifts which are occurring are, I believe, going to have and are already beginning to have some very profound implications, and we in Canada will be significantly affected by the kinds of shifts which are now in the process of taking place.

Let me, in my introductory remarks, suggest one final basic issue—of course, it overrides everything; it affects a great many aspects of all of our relationships with the United States. It is simply the disparity in size between our two countries—the very large scale; the high degree of specialization in many types of activities in the United States in its very large market; the absolutely larger and more efficient U.S. capital markets and larger pools of savings in the United States; the greater capacities for undertaking risks in the United States; the greater potentials, certainly in absolute terms, for creating and applying new knowledge and new technology; the larger opportuni-

ties and the greater imperatives to develop organizational and managerial skills to cope with organizations of greatly increasing size and greatly increasing complexity. These are merely some of the illustrations of the significance of these disparities. I do not mean to suggest by this that "bigger" necessarily means "better." In many cases, obviously, this is not so, but in a world in which organizations and institutions are growing in size and complexity, for Canada, as elsewhere, the experience of the United States—its successes and its failures—is obviously of a great deal of relevance to us and to other countries as well.

Against the background of those brief comments, let me touch now briefly on what I call people relationships and organizational relationships, and here I will attempt to be very selective and touch on only a few things.

On "people relationships," I do not intend to say very much about population and demographic trends, except to say that obviously Canada has a very much smaller population, but one that has been growing with relatively much more immigration; that our population in both the last quarter century and over the entire 20th Century has been growing at rates which are very much higher than those in the United States; that we had a relatively much greater post-war baby boom in size than the United States—although it is very interesting that the fertility rate in Canada (that is, the number of children that a woman typically has over her child-bearing cycle) is now below that of the United States. Indeed, it is now so low, at 1.95, that if it continues into the indefinite future we are now already below "zero population growth" in Canada—that is, excluding immigration—while the United States is not quite that low.

However, on the basis of our earlier post-war baby boom we have a very youthful population in Canada. The average age of our population is not much over 25 years. We are a "very young" country. I am tempted to say, however, that, in relative terms, at least compared with the kinds of populations that existed in ancient civilizations like Greece or Rome, where the average age was somewhere in the late teens, we have a rather "old" population. Moreover, in Greece and Rome, it was generally believed that if people had not made their mark by age 17 or 18, they were not going to achieve very much—although I am sure that that applied to the Roman Senate!

We are in the situation in which we have not only had faster total population growth than the United States but very much faster urban population growth. By any measures of urban population, we now appear to have a more urbanized country than the United States, 76 per cent to 73 per cent. Our rural population has been declining relatively over the whole of the century. It has been declining absolutely since the mid 1950s. We are not an open country that is gradually becoming filled up more and more with people in open spaces; we are becoming a more sparsely populated country as people tend to flow from the countryside, rural areas, and now even from many of our smaller towns into our cities. The trends are so strong that I estimate that these will continue and that we will probably continue to be a more urbanized country than the United States, at least over the balance of this century.

We have had, in conjunction with these urban shifts, some very significant accompanying shifts in the industrial structure of our country. That is reflected in many things, but I suppose it can be brought out simply by noting that one does not have to go back very far—to, say, just the immediate postwar period—to a time when we had

about one out of every three Canadians employed in our primary industries—about one out of every four in agriculture, and about 7 or 8 per cent in fishing, mining, primary forestry, oil wells and gas wells. Of course, this sector has shrunk enormously. The total proportion of our employment in these sectors is now below 10 per cent, and probably below 7 per cent in agriculture. The proportion of our employment in manufacturing has declined somewhat, from about a quarter of the total to something like 22 or 23 per cent, and our service industries correspondingly have grown enormously from about 4 out of every 10 Canadians in the early postwar period to a proportion of well over 6 out of every 10 Canadians now.

One of the interesting things about this development is that in the industrial structure our economy has been getting more and more like that of the United States with basic trends moving in the same way.

One of the terms that has been most inappropriate in its widespread use in the postwar period is talk about "industrially advanced countries", often carrying the implication that as a country industrializes a growing proportion of its employment takes place in manufacturing. That of course is not so. In the advancing modern societies, the hallmark of advance is that service industries grow relatively, service production becomes increasingly in demand. The primary industries tend inevitably and invariably to decline in relative importance in both employment and in output, and generally, but not universally, at certain stages when societies get very advanced, manufacturing too begins to decline in relative importance in employment, although not usually in production.

Now let me turn to one or two other features of "people relationships". I suggest that one way of looking at Canadians in the United States and Americans in Canada is to look at some of the numbers of Canadian-born people living in the United States and American-born living in Canada.

Very briefly, the situation is now that something under one million Canadian-born live in the United States and that we now have probably a lower figure in that number absolutely than we have had at any time since the turn of the century. In contrast, the number of American-born in Canada is somewhere in the order of 400,000, and this is near a high water mark in the twentieth century.

The most striking historical aspect of this is that during the whole latter part of the nineteenth century and into the early twentieth century the numbers of Canadian-born who went to live in the United States soared. They increased from a very small figure to about 1.2 million by the turn of the century. At that point the numbers of Canadian-born in the United States were equivalent to more than 20 per cent of Canada's total population.

There was a great surge of American-born coming to Canada in the first decade of this century, through the First World War, when the numbers climbed very rapidly and when at one time the American-born in Canada amounted to something close to 5 per cent of our total population.

These kinds of changes basically emerge from the differential economic forces at work. In the latter part of the nineteenth century, the United States economy was growing with great force and vigour, and it proved to be enormously attractive to Canadians to go to the United States. During that period, from the limited evidence we have, the average standard of living in real terms between the two

countries appeared to have widened significantly, as Americans became relatively more prosperous, and that basic situation tended to draw large numbers of Canadians to the United States.

There was also a period corresponding with the opening up of the American West, although many of the Canadians went to live in New England and along the eastern seaboard.

In the first decade of this century the Canadian economy caught fire and grew with enormous and striking vigour, the kind of vigour we have not subsequently seen during the whole century, with the possible exception of a brief period in the 1960s. That vigour in our economy drew Americans very strongly towards residence in Canada—although, interestingly enough, when one looks at the composition of the great bulk of the immigrants that came from the United States at that time, something over half of them were farmers. The patterns of immigration have changed, of course, with the changing structure of the economy. In recent years, the proportion of the very much smaller number of Americans coming here has been heavily concentrated in managerial, professional, high skilled occupational groups.

Another very interesting feature, in looking at these numbers—something that I did not fully appreciate until I came to look at them the other day—is that we have heard a great deal during the past decade, especially during the past few years, about the very large numbers of Americans who came to Canada to help to manage and operate multinational corporations here, to escape the United States draft, to leave congested and polluted American cities to come and live in Canada, and so on. A great many factors have been cited. The interesting thing is that the net increase in the number of American-born in Canada from 1961 to 1971 was a total of 25,000 for the decade. Indeed, the increase was so small that the proportion of Americans living in Canada over this decade fell. We have not in fact seen a great wave of American-born coming into Canada, in spite of the many factors that are often cited as to why this was happening or might have happened.

On the question of tourist flows, we have a tremendous volume of "people traffic" across the Canada-United States border. In 1971, the last year for which I was able to find figures, 35 million Canadian exits out of Canada were recorded. I take it that a number of Canadians went several times, Mr. Chairman, including yourself!

The Chairman: Yes.

Dr. Smith: But the interesting thing is that 96.6 per cent of the recorded Canadian visitors going abroad went to the United States. In the same year, of the 39 million visitors entering Canada 98.6 per cent came from the United States. So, the great flow of people, between Canada and any other country, is across the border between Canada and the United States.

One of the interesting features in these flows is that the proportion of people who are paying more extended visits is increasing. In 1946-47, about 20 per cent of the United States visitors coming into Canada stayed for one night or longer. Many people hopped across the border, to work or to buy something in the daytime, and went back, or they came and had a look at Niagara Falls and went back. The figure for the extended stays is now up to 40 per cent; the proportion has doubled! Among Canadian visitors to the United States, this figure has jumped even more over this period of about 20 years—from about 13 per cent to 30 per

cent. As we are becoming more affluent we are in fact seeing more tourist travel for longer periods of time.

Spending by U.S. visitors in Canada has risen almost eight-fold over the past half-century to well over \$1 billion in 1971 (and more than five-fold since the end of the Second World War). Spending by Canadian visitors to the United States has risen even more rapidly over the latter period. At times we have experienced substantial deficits in our tourist balance of payments accounts with the United States (for example, during the 1950s), but in recent years, we have had a consistent small surplus.

Another question I thought I would touch on very briefly is that of students and teachers, both of which categories have been the subject, at times, of some interest. What has happened here is that Canadian students studying at the higher levels in the United States have increased very substantially over the last half century—about one hundredfold, from an almost negligible figure in the mid-1920's to about 13,000 students in 1971. The large increase occurred in two surges, one of which I was a part, that of the immediate post-war period, when many young Canadians went to the United States, especially to do graduate work; and then in the 1960s we went through another very large surge of Canadian students going to the United States.

In the case of United States students coming to Canada, the numbers were a little higher than those of Canadian students in the United States during the 1920s and 1930s, when the figures were relatively small. In terms of these students, we have seen a much more gradual increase.

The number of American students in Canada, at the last count, in the 1960s was about 6,000, a figure which is less than half the number of Canadian students in the United States, on average, within the past two or three years although Canadian students, according to the latest data I have seen, have dropped to something less than 10,000. I do not know whether that is because we are now supporting our higher education sufficiently handsomely in financial terms that it has become relatively too expensive to go to the United States. I like to think it is because the quality of our university and higher educational training has improved sufficiently to keep more of them here. In any event, this is a most interesting recent development.

On the faculty side, again in spite of the rather controversial discussion that has been taking place in public about very large numbers of people from the United States coming and staffing our Canadian universities, we have had some rise, not a terribly dramatic rise, but some rise in the proportion of Americans teaching in Canadian universities during the 1960s. During this period we had an enormous boom, an absolutely unprecedented boom, even in relation to any experience of other countries, when we quintupled the student enrolment in our universities and higher educational institutions in a decade.

However, in the past year or two, the situation has changed to a kind of "plateauing" of both students and teachers. The proportion of Canadian teachers in our universities has been relatively stable at just under two-thirds. The numbers of Americans have been fairly stable at something in the order of 18 per cent, with about one in ten coming from the United Kingdom, and a little over one in ten coming from countries other than the United States and the United Kingdom.

Now, let me turn to the organizational relationships, and touch, first, very briefly, on inter-corporate relationships.

Then I will say a word or two about union relationships, and then very lightly touch on institutional and professional association links.

In the field of inter-corporate relationships we have, of course, had an enormous range of discussion and debate about many aspects foreign investment in Canada in recent years. All I would like to do is simply make five points, very succinctly.

The first is that in Canada, for many reasons, we have had, historically, and still have today, a highly capital investment economy. I think, with the possible exception of Norway, we use more capital stock per person employed than any other country in the world—for example, relatively more than in the United States—and that has required enormous amounts of new capital investment in Canada.

We are also a high savings country, but even though we are a high savings country—a higher savings country, too, than the United States—we have tended to depend substantially on net inflows of capital from abroad during periods of sustained prosperity when an investment boom was under way. Over time, however, we appear to have been maturing. What one can see in the numbers is a long-term trend from, say, the beginning of this century—at about which time we begin to have some numbers that mean something—in which the proportion of net inflows of capital, in relation to our domestic investment, has tended to decline in successive periods of strong and sustained expansion—less in the 1920s than in the first decade of this century, less in the 1950's than in the 1920s, and less in the 1960s relatively, than in the 1950s, and so on.

Secondly, of course, net inflows of capital have not been the only thing that we have drawn on from abroad. We started with a largely empty country and we decided to proceed to develop basically by facilitating and encouraging enormous inflows—enormous net inflows—not only of capital, but of people, of skills, of innovational and managerial and other talents, and perhaps most important of all, of knowledge and technology, and in periods of strong growth, as well as net imports of goods and services and investment and consumer goods at times a strong demand growth. This has been our pattern of growth, but as in the case of capital, on other resources, too, we seem, generally, to have been relying progressively less on net imports as we have gone through some kind of maturing process. Perhaps the one exception to that rule—and, I suggest, a very important exception to that rule—is that we are at least as dependent today as we have ever been, probably more so, and we will probably be even more so in the future, on net inflows of knowledge and technology. As has been pointed out in the past few years, even if we are very good in Canada at producing new knowledge and new technology in relation to the size of our country, we are only likely to be able to produce something between 3 and 4 per cent of the world's total. Senator Grosart, you may have a better estimate on that than I do.

Senator Grosart: Two per cent.

Dr. Smith: That is even lower than I thought, but that is about the ball park figure—and we are not alone. The United States, the United Kingdom, Germany, Japan are all becoming progressively more dependent on imports of knowledge and technology. Therefore, if we wish to have a kind of society and a kind of economy that remains close to the frontiers of ongoing development, we must do a very good job of importing knowledge and technology effective-

ly, and of applying it effectively—while at the same time, with our own growing maturity and with our own growing capacities and efforts, we continue to devote increasing energies and resources and effective skills and resources, to developing our own knowledge and technology in Canada.

The third point I want to make under the subject of inter-corporate links is that these imports of productive resources, knowledge, technology, capital, managerial skills, organizational talents, and many other things have tended to come together on many occasions in packages that involve direct investment, and in many cases that involve the establishment of subsidiary companies in Canada, or the acquisition of companies in Canada. This, or course, has given rise to large questions about foreign ownership and control, and about policies and practices of foreign subsidiaries in Canada—that is, questions concerning whether some of these organizations operate fully in our own national interest as we may define it. I think one of our unfortunate tendencies, especially as regards the policies and practices of foreign corporations in Canada has been often to generalize from particular cases of poor performance or behaviour to general principles. In fact, the amount of information and analysis that we have in this field is fairly limited, and among the careful studies that have been done, such as the pioneering studies by Professor Safarian, there are, I think, some considerable doubts about many of the allegations of poor performance in generalized terms that have sometimes been made; and of course, I have always argued that in any assessment of this we should also look at some of the strengths that are brought in and not merely at some of the problems that are created.

Fourth, there is, of course, another dimension that has at times been, I think, a more serious one and has posed more problems for us. This is the problem of the extraterritorial application of United States laws operating through United States corporations resident in Canada. Here again, I think, at times the issues have tended to be exaggerated although I think there have been one or two occasions when the possible repercussions of a multilateral non-discriminatory application of extraterritoriality by the United States might very well have created significant problems for Canada as a result of the very large amount and degree of foreign ownership and control of Canadian industry.

Finally, I make the point on inter-corporate relationships that it is simply not true that Canada has been becoming an increasingly attractive location for the activities of multinational corporations. Two things have been happening in this field that I think are very interesting. Not in all cases, but in the majority of cases, the relative importance of the operations of multinational corporations in Canada has been declining in relation to the overall size of their operations in the world. Secondly, quite obviously now a growing range of Canadian owned and controlled companies are in the process of becoming multinational companies by developing new and enlarged activities abroad, and even, in some cases, moving activities abroad. To me it is rather an ironic situation that we have been developing a growing concern about how to influence and control foreign corporations in Canada over the past decade at a time when our capacity to exercise such control over the shrinking relative sizes of multinational operations in Canada appears clearly to have been on the wave.

On the labour union organization frontier, I do not really have very much to say. I know very little about unions and

how they operate practically. They are a significant factor in Canada, in the sense that about three out of every five unionized workers in Canada belong to an international union (by that I mean essentially that they are affiliated with unions in the United States), and that in turn translates into about 60 per cent of all unionized workers in Canada and about 15 per cent of Canada's total employed labour force. The international union membership in Canada is heavily concentrated in a number of Key industries—and, incidentally, concentrated in many of the same industries in which foreign ownership and control of Canadian corporations is predominant. I shall not try to delineate those relationships any further, but I do commend to you a very good study undertaken by John Crispo a number of years ago entitled *The Role of International Unionism in Canada*.

Finally, on professional and other institutional links there exists a whole host of these kinds of links. We know very little about them. Several efforts have been made to try and list these institutions and put some information together about them, but most of them have not resulted in very much, simply because there are so many, they are so diverse and they are often hard to find out much about.

I would say it is one of the great hallmarks of an advancing and progressing society that it is in this sort of milieu that the basis is laid for the establishment and growth of professional associations of growing size and specialization such as service clubs and welfare organizations and institutions of many kinds, to serve particular interests and needs. That is one of the interesting and very striking differences between countries that we call "advanced", like Canada, and the less developed countries where one finds relatively few associations, or organizations of this kind.

Of course, in both Canada and the United States organizations of this kind have grown and flourished and become vastly more complex, and it has become inevitable in terms of the close proximity of the two countries, in terms of many common interests, that there should be all sorts of links—individual, organizational and intergovernmental—in this process. What really is involved here is that on several levels we are seeing a world in which the rapid growth in both the volume and range of knowledge provides a great spur to the creation of all sorts of new professional associations, contacts and conferences of various kinds. Some of the earliest initiatives appeared in the United States but we have now had many in Canada—indeed, a rapidly growing number in Canada—with "cross memberships" between national associations of this kind, along with the emergence of a rising number of international associations. We have had a great many different types of institutions created in both countries—again richer and more plentiful in the United States than in Canada—institutions to examine and study certain specialized subjects and to advise on various kinds of problems. Here, too, it is a natural and normal phenomenon that a growing range of contacts and links should develop between institutions of this kind. Some of them—such as the Canadian-American Committee, sponsored jointly by the National Planning Association in Washington and the Home Research Institute in Montreal—have deliberately sought to focus special attention on Canadian-American relationships, and have proved to be constructive vehicles for personal contacts across the border and for the exchange of views between individuals from many different regions and sectors of the two countries. Beyond these, of course, there exists a whole host of other organizations

that one might put into this category—industry associations, farm associations, service clubs, youth organizations, welfare groups and many others.

Finally, out beyond that, of course, lies an enormous and far-reaching flow of literature, technical journals, art and cultural exchanges, radio and television broadcast exposures, all of which are part of the wider international sweep and flow of ideas.

I suppose it might not be inappropriate to end on a rather philosophical note and to say that as far back in history that one looks at man as a creature, perhaps the most basic of all the things he has wanted in relation to his fellow men is to have opportunities for exchanging ideas—his ideas with others and their ideas with him. I have

always felt that that was one of the great and powerful factors making for cities and bringing people together to live and work in closer proximity to each other. I suppose that in a wider sense this is one of the fundamental and important factors very deeply involved in this rapidly increasing and complex range of private contacts between Canada and the United States.

The Chairman: Mr. Smith, I think I can speak on behalf of all the members of the committee when I say that we are delighted by the remarks that you have presented and by the method you have adopted to speak to it. This is an extremely important set of comments and, speaking for myself, I can say that I found it very revealing in a number of areas that I just did not fully comprehend, particularly your discussion of the tourist side of things. I am astonished at some of the statistics.

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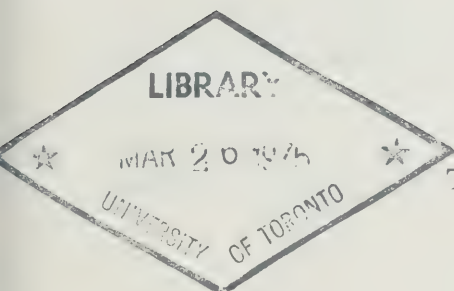
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FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*



Issue No. 4

THURSDAY, JANUARY 23, 1975

Third Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hasting	Yuzyk—(20)

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, January 23, 1975.

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *IN CAMERA*, at 9.40 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Asselin, Carter, Connolly (*Ottawa West*), Flynn, Grosart, Lafond, Macnaughton, McElman, McNamara and Yuzyk. (11)

Present but not of the Committee: The Honourable Ren-aude Lapointe, Speaker of the Senate; and the Honourable Senators Fergusson and Molgat.

In attendance: Mr. E. R. Johnston, Head, Policy Coordination Section, U.S.A. Division, Department of External Affairs; Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

*Agreed,—*That portions of the proceedings of this *In Camera* meeting be printed, subject to the approval of the witness concerned.

Witness:

Mr. Marcel Cadieux, Washington, D.C.,
Canadian Ambassador to the United States.

The witness supplied copies of booklets and documents as examples of the types of information prepared and distributed by the Canadian Embassy in Washington.

At 12.25 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

NOTE: In accordance with a Resolution of the Committee dated January 23, 1975, these proceedings are printed with the agreement of the witness concerned

Ottawa, Thursday, January 23, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 9:30 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I would like to express our appreciation to the Canadian Ambassador to the United States, Mr. Cadieux, for making a special trip here today in order to appear before us. I would also like to thank all of you, honourable senators, for being here today. This meeting was arranged several weeks ago, in anticipation that the Senate might be sitting this week. It is not actually sitting until next week, Mr. Ambassador, however, and I am delighted to see that so many members of the committee, and other senators, have found the time to come here.

I would like to welcome, in particular, our distinguished Speaker, who has joined us this morning, and who used to be a member of this committee before her appointment to the Chair.

Ambassador Cadieux, as many of you know, has had a distinguished career of more than 30 years in the Canadian public service. He was born in Montreal, joined the External Affairs Department in 1941, in which he served in numerous posts abroad, including London, Brussels, Paris and Indo-China.

He was Under-Secretary of State for External Affairs from 1964 to 1970, when he was appointed Ambassador to the United States, where he has served ever since, and which I would think is certainly our most important, as well as our busiest overseas assignment.

The Ambassador is, in addition, the author of several books, including two on Canadian diplomacy, I believe, and is an authority on international law. He has lectured in law at the University of Ottawa.

Mr. Ambassador, as we have arranged with previous witnesses, today's meeting is *in camera*, in order that you may feel free to speak as frankly as possible. However, honourable senators, the ambassador has agreed that the proceedings will be published, subject to his right of review of the transcript before publication takes place.

I might point out to honourable senators that the ambassador is in an active role at the moment as our representative in the United States. Unlike some of our witnesses who have given their evidence *in camera*, he has not yet retired, and may well, in some circumstances, need to ask your restraint in asking his opinions on subjects such as

American personalities. I will leave that to your very good discretion.

I might just mention, before asking the Ambassador to open, that our next meeting has been scheduled for February 4, when we will have as our witness Mr. Rufus Smith, former deputy assistant secretary in charge of the Canadian Affairs Bureau of the U.S. Department of State. We have agreed, as you know, to hold two meetings every second week rather than one a week. We had hoped on Thursday, February 6 to have Mr. Maxwell Cohen, Canadian Chairman of the International Joint Commission, as a witness, but I had indications yesterday that he may not be able to make it until February 18, in which case somebody else will have to be substituted; but we will circulate you on that as soon as we have definite word from Mr. Cohen.

Mr. Ambassador, I now ask you to make your introductory remarks. Following that, Senator Lafond has kindly agreed to lead off the questioning.

Before you begin, Mr. Ambassador, I believe we have extra copies of your opening remarks, and I shall ask that they be distributed so that honourable senators will have the opportunity of following them while you are speaking.

His Excellency Marcel Cadieux, Canadian Ambassador to the United States of America: Mr. Chairman and honourable senators, I understand that the purpose of this presentation is to give you an impression of the daily and concrete activities of the Embassy in Washington. A lot has already been written and said concerning machinery and policy-making.

By any stretch of the imagination, Canada's relations with the United States are complex and certainly represent our most important external interest. This relationship, which carries with it the potential of touching the life of every Canadian citizen, requires sensitive management and comprehensive supervision. In the United States the Embassy must try to ensure that Canadian policies are understood and that American actions affecting Canada are promptly reported and carefully interpreted. If we can contribute to the solution of bilateral issues by our advice, either on tactics or substance, we like to do that too.

Shifts in policy here in Canada require a particular effort on the part of Canada to maintain an harmonious relationship with the United States. This has always been the Canadian goal. But in the new circumstances of the third option, for instance, the challenge is perhaps greater than before for the Canadian government and, consequently, for the Embassy in Washington.

In recent years the Embassy has taken on a broader scope of activities and, therefore, is probably better able to monitor the American scene than it has been in the past, both in its political and economic dimensions. We conduct 17 different programs at the embassy which range from political, economic and defence relations, information and

trade, industrial development to travel, marketing, police liaison, energy, supply and services, labour, provincial interests, the environment, and transport and communications.

In addition to the Embassy in Washington, the government maintains consulates in 15 cities in the United States and Puerto Rico. As an example of the dimensions and the immensity of our task the consul general in Chicago has in his consular district a population greater than that of Canada, and his colleague in neighbouring Detroit is based in a state which has bilateral trade with Canada to the extent of some \$11 billion annually. It is therefore unlikely that in my observations I will be able, in the time available, to do more than sketch the main aspects of the subject. I shall endeavour to depict the kind of operations we have in Washington, and later I shall be glad to develop any points which may elicit particular interest.

First, I should mention a number of duties, chiefly of a symbolic or formal character. These are not, perhaps, of primary importance, but they are of an obligatory character they must be performed on a more or less continuing basis. The ambassador is accredited to the President. He must present his letters to him and establish and maintain contact with the main members of his administration. He is assisted in this task by the members of his staff. This means that the ambassador must attend a number of formal functions at the White House or at the invitation of members of the government. The ambassador reciprocates, and over a period of time he gets to be known and to be identified as the representative of his country. He is present, for instance, when the President delivers an important message to Congress—I was there, for example, last Wednesday at 1 o'clock when he spoke to Congress—or when he returns from important trips abroad.

In Washington, keeping contacts with the chief officials of the Administration is, perhaps, a more arduous task than it is in Ottawa. In the first place, one has to contend with the separate powers. I shall add to this later in dealing with relations with the legislators. What I have in mind here is that on any given question it is not sufficient—and I am amplifying some points here as I go along—to call on a senior official in a branch of the Administration, as can be done here. An ambassador here can call on the Deputy Minister of Agriculture, for instance, and he gets the picture. In Washington that is not enough. The ambassador and his colleagues must, of course, call on the Department of Agriculture, but then they must touch base with the White House which makes a considerable input in the development of policy. Beyond that, the ambassador and his aides must occasionally touch base with the legislators, particularly on an issue such as energy, where Senator Jackson, for example, might be involved. It may be necessary to call on a number of senators, Congressmen and officials serving them in the various committees to have an idea as to how the opposition will approach a given problem. In addition, the media in the United States play a very important role, and so it is required as part of the process to find out what is the forecasting, what is the impression of those who are experts on the local scene and who can give you an idea as to how the machine is likely to operate and produce a policy result.

Furthermore, it seems that in Washington there is more rotation among senior officials than there is here. While here in five years it seems to me that there has been little change in the hierarchy, in Washington I often find myself

getting acquainted with the fourth or fifth incumbent in any given office, and this is certainly true in the case of under-secretaries in Washington and is particularly true of many people in Treasury whom we have to deal with on a daily basis. This means that establishing and keeping one's contacts in Washington is an extensive and constantly recurring operation. From this standpoint, Washington is a very large and demanding town.

Courtesy calls from or on diplomatic colleagues are another related and time-consuming operation. I know that many new ambassadors limit the number of their visits. There is something to be said for not overdoing this aspect of the assignment. For my own part, however, I have scrupulously held to the principle of returning all courtesy calls, and very often I have found such encounters agreeable and rewarding professionally. For instance, when a head of state visits Washington, one may supplement the information received from the State Department by a visit to the representative of the country concerned. I remember that each time the Prime Minister or the Foreign Minister of Israel came to Washington I used to make a point of calling on the Israeli ambassador, who is now the Prime Minister of Israel, so that I could obtain supplementary information which was extremely valuable to us. I did the same thing with the Jordanian ambassador, who is now a minister in his country, and through him I could get a perspective as to how the other side of the controversy was viewing developments in Washington, which I found rewarding.

Another aspect of maintaining contacts with the Administration involves saying goodbye to Embassy colleagues and their official friends and passing their contacts and circle of friends to their successors. In this manner a purely simple occasion is really an attempt on our part to provide continuity of contact with American officials. The embassy maintains liaison with American officials through changes in personnel which are determined at intervals as a result of service requirements.

A second task, which is of basic importance and affects all other operations, calls for keeping informed as to the national situation and reporting to headquarters in Ottawa on significant developments. In the very nature of things this kind of activity cannot be limited and is always susceptible of improvement. It is nourished by personal contacts. It is supplemented by news, newspapers, TV stories, private reading. All the accumulated knowledge of the Embassy must be mobilized to provide assessments which will enable officials in Ottawa to understand happenings in Washington which may affect us or, reciprocally, how Canadian decisions may be viewed or received there.

The Embassy provides periodic reports as to the situation in the United States, having in mind developments which may be of special interest to Canada. We try to keep in touch with the situation and the requirements here and to identify features in the United States situation which it seems to us may be of particular interest to the decision makers here.

Of course, there are topics such as trade legislation, the defence budget or energy problems which we assume are of continuing interest. There are experts on the Embassy staff who follow these matters in detail and provide a stream of reports, sometimes daily, on United States developments.

As to reporting on energy, this is a constant and increasing preoccupation. We have to ascertain how policy develops in the United States and explain our own decisions

in this field. Naturally, visits dealing with this subject from Ottawa to Washington are frequent. Congressional liaison, cultivation of media and substantial liaison activities are all relevant.

Furthermore, departments in Ottawa require specific information on United States policy prospects or decisions. When we receive instructions to seek this information, inquiries are made by Embassy officials at the appropriate levels and reports are prepared and sent to Ottawa. This is a large-scale and continuing operation, which involves a number of specialists. In some cases representatives in Washington of a number of departments are required to co-operate and to put together the results of their experience and their inquiries.

Because Ottawa is so close to Washington, the Embassy itself does not often formally negotiate on behalf of departments or of the government. The practice is to send to Washington the home experts, who deal directly then with their United States counterparts. In such circumstances Embassy officials assist their Ottawa colleagues with practical arrangements, brief them on the local situation and personalities, accompany them to meetings and help with the assessment and the follow-up. While the task of Embassy officials may be different from what it may have been in the past, I think that it supports and complements usefully that of the home officials. Working for and with visiting Ottawa officials—from the Prime Minister, to ministers, to senior officials—is one of the major tasks of the embassy. It is perhaps the first in the time and effort required. Every week, every month, the embassy is preparing visits from Ottawa. Some are short and easy, others difficult and longer; but on a continuing basis I think that this side of our activities and the related reporting and representational work consume a very substantial part of the Embassy's energy.

Running an Embassy also involves a great deal of management, particularly in the case of a large mission such as that in Washington. I have in mind not only the preparation of yearly or annual programs and rating reports on personnel. It is necessary also to ensure co-ordination between the various sections within the Embassy. To achieve this a number of periodic meetings must be held so that representatives of the various departments and agencies are not only aware of the broad picture but also know what is being dealt with specifically by their colleagues from other departments. This enables the political officers to provide co-ordination to avoid duplication or dispersion of effort. These meetings can be too numerous and take too much time, and we try to provide only the essential minimum. There are meetings each week among the political officers, among the senior section heads, among economic and information specialists. Minutes are circulated in some cases to assist in keeping numbers down. But to operate in a unified and effective fashion, the Embassy needs to be aware collectively of what is happening, of what it is doing and to monitor regularly its performance. I thus find myself attending weekly meetings with my immediate and senior advisors and monthly meetings with the head of every unit of the mission. Special meetings are arranged on short notice, as required. Once a month there is a luncheon which can be attended by all Embassy members, who can raise formally or informally any question which may be on their mind. These co-ordinating and administrative tasks have their importance, but require time and attention, not only on the part of the ambassador and senior officers but also on the part of the management specialists. All key members of the staff must be in the act if the Embassy

team is to work as a unit, to be efficient and to avoid morale problems.

To give an example of the type of detailed work which may be called for under this heading, may I mention that periodically I try to see in my office, in groups of eight to 10, all members of the staff who are posted to Washington. I want to know them, of course, but above all I wish to learn if they have encountered any problems. I am concerned that they should know, should there be any difficulties, that my door is open and that I am available to hear them and to help them.

Information and cultural affairs are, of course, a complex and increasingly important aspect of the activities of any diplomatic mission and particularly in the United States, where the fourth estate, public relations and image management are an integral part of the scheme of things. I cannot attempt in the time available to do more than invite attention to some recent and important developments in this area.

Ultimate benefits accrue when we acquaint our American neighbours with the essential nature of our culture and the reasons behind our policies. As the Canadian government continues to respond to national requirements, which very often are different or even run counter to American policies or priorities, there is an evident need to make the Canadian position known to those who influence American policy and public opinion.

So far as the embassy in Washington is concerned, I can say that until the late 1960s our information activities were limited and largely responsive in nature. We then moved deliberately to a more activist approach in the public affairs field. Since 1970, on a selective basis and as resources have been acquired, we have made a major effort to seek out and influence in particular two priority groups: the principal media and higher academia. Our programs have begun to gain momentum, dating from 1973 when the first effects of a long-term expansion of our information effort, known as the New Look, began to take effect. The resources we have added to the Embassy to date have been comparatively modest, although we expect to move ahead in this area in 1975. Great strides have been made at the consular posts where one or two information officers have been added at 12 of the 15 posts over the past two years. Most of these have taken up their positions in the last few months, but they will soon permit us to reach more effectively our target audiences across the United States.

The other major concern has been American universities, particularly the encouragement of more university teaching and research related to Canada. While the other aspects of our information-related work are most often concerned with the present, at the university level we are looking to the longer term. An Embassy officer working with consular posts is developing a network of contacts with professors who are or might be interested in teaching and research related to Canada. We work actively with the Association for Canadian Studies in the United States, and I propose to attend their annual meeting in April at Michigan State University.

There is only a handful of American colleges and institutions where there is a major program of Canadian or Canadian-American studies. Much remains to be done. We have made major recommendations in this area. An idea of the scale which would be ideal has been provided by the Japanese who have committed \$10 million in endowment money and have established a foundation to assist programs and faculty on an on-going basis. We are also explor-

ing with the National Endowment for the Humanities a possible joint bicentennial project in the academic area.

A key element of the information program has been the development of Embassy publications. The main publication is a news letter entitled "Canada Today". It reaches 40,000 people in the United States 10 times a year and is directed to an elite readership in the media, academia, business, labour and government. A weekly summary of Canadian editorial opinion on one or two topics, Canadian Press Comment, reaches over 2,000 Americans in the media and universities. On a periodic basis we publish a policy paper entitled "Canada Report", mainly for Congressmen and their staffs. One issue of this report, for example, elaborated on Canadian energy policies affecting the United States.

We have film and book libraries and a substantial service to answer Americans' questions on Canada, in addition to the promotional activities undertaken directly by the Travel Bureau, the Department of Industry, Trade and Commerce, the National Film Board, Air Canada, et cetera. I sometimes wonder whether the scattered approach between our various official outlets, (the 15 consular offices are also in the act), is best or whether it would be more effective to seek a degree of coordination or at least harmonization. In so far as the consulates are concerned, I have tried through meetings, telephone links, speeches and other means to promote gradually a greater measure of coordination in projecting the Canadian image and point of view nation-wide. In this respect, more speed and coordination will be possible when additional communication links are provided between Ottawa and the consulates and Washington and the consulates. Already more material is being provided to the consulates, and their work in the information field is expanding fast and well.

Since my arrival in Washington, and with the assistance of information specialists and the consulates, I have travelled quite extensively in the United States to meet newspaper editors to give press conferences and TV and radio interviews. This has enabled me to get to know the United States better and, hopefully, to explain the Canadian reality, our policies and attitudes more extensively and systematically than had been done before.

Preparing for these tours is an arduous operation. In particular, I can seldom leave on such tours without having written alone or with the help of my Embassy colleagues two or three major speeches. I confess that on weekends or during holidays I spend a fair amount of time preparing drafts of addresses and speeches. The text of these is then cleared with Embassy experts and circulated after delivery to our various consular offices in the United States to assist them in their own information activities. They do not have at their disposal either the expertise available at the Embassy or quick and easy access to Ottawa headquarters resources.

In the United States, as you know, there are many citizens who had ancestors in Canada; there are particularly important groups of French origin in New England, in Louisiana and on the West Coast. Again, we respond to interest in Canada by providing information material, films, books, recordings, which encourage travel in our country and serve a variety of other useful purposes. I have made it a point to visit these groups often and to help our consulates in maintaining contacts with them.

We also have a number of Canadian clubs in the United States. There are particularly active ones in New York,

Washington and San Francisco. The Embassy and the consulates follow their activities. This calls for visits, speeches, et cetera. These groups, are, of course, especially interested in Canada and keep in close touch with our missions. I wonder myself whether such groups should not be encouraged wherever we have offices, whether they should be organized along certain lines, and whether there should be some link between them. They could bring together audiences for visiting speakers from Canada, disseminate information material concerning our country, and generally expand the influence of our offices in the United States. I have suggested that a study of such a scheme might be undertaken by a suitably experienced person, and am encouraged by the positive attitude of the Department to the proposal.

There are other infinitely varied aspects to the information work. Frequent briefings have to be given to senior U.S. officials—for instance, to those who attend such institutions as the National War College, or the equivalent of our Public Service Development Centres. One is required to meet informal groups of senators or to speak for Canada at seminars organized by influential university departments or centres. These occasions are getting to be more numerous, sometimes require travel, and often require carefully prepared statements.

It seems clear to me that the ambassador in Washington will find it necessary to continue to move about the country—to show the flag, so to speak—to explain Canada to the United States in partnership with his consular colleagues. Canadian officials, Canadian businessmen, academics and others also have a role to play in this field. Again the opportunities for embassy involvement in media operations are practically unlimited. They have, of course, to be related to other and competing objectives. There are times, when other pressures are reduced, when more image projection in Washington or in other centres can be undertaken. At other times, they must take a lower priority. There is no manual and easy guideline to help in determining how best to deploy.

Closely related to information, of course, is the whole field of promoting academic studies on Canada or on Canada-United States relations. We have a book distribution program which is doing well, and already there are a number of promising centres on Canadian studies—at the University of Vermont, at Duke, or even next door to the Embassy at the Johns Hopkins School of International Studies. The question is whether we should do more; and, if so, what?

A number of special projects are under review. We require a broad strategy, I think, in this area which I believe is important for the future. There are in the United States some 2,500 universities and colleges and an academic community of some 7 to 8 million. During the last few years Germany and Japan have decided to spend substantial funds—some \$10 million, in the case of Japan—to encourage academic interest in relations between each of them and the United States.

Lately we have undertaken to develop contacts with a larger range of labour organizations, and we have had for many years at the embassy in Washington a full-time counsellor for labour affairs. Liaison and information exchange with the United States Armed Forces is carried out by the Canadian Defence Liaison Staff in Washington under the command of Major General Biggs, who also provides me with professional military advice on Canada-United States defence relations.

I should mention also that, generally, Canadian artistic and sporting activities are expanding in the United States, sometimes with the assistance of federal agencies, such as the Canada Council. The embassy and the consulates are increasingly involved in such operations which are, undoubtedly, important but which are also time consuming. If the National Ballet or the National Arts Centre Orchestra comes to Washington, New York or San Francisco, it is appropriate that Canadian officials provide recognition and assistance. But, given our resources, the effort required is quite considerable and we sometimes have problems in meeting competing claims from other sources and sorting our priorities.

I now wish to mention rapidly a number of additional fields of activity which have been growing in recent years and have required increasing Embassy attention.

You will not be surprised if I mention first Congressional and Parliamentary liaison. Of course, you will be familiar with Mr. Dobell's own activities. He brings Canadian parliamentarians to Washington and United States Congressmen to Canada. The Embassy is interested and involved.

You will also, I am sure, be aware of the Canada-United States Interparliamentary Group. The Embassy is interested in this, but I am not sure what role, what assistance is expected of us. In the past, at least in some quarters, the Embassy, we had the impression, was chiefly expected to provide representational assistance.

Then there is the key chapter of Embassy relations with the Legislative Branch of the United States government. This is an important, expanding but delicate aspect of our work. There is, at minimum, a public relations and an information job to be done. But some selection as to areas and fields is required. Not all senators, not all Congressmen are interested in Canada. Furthermore, one must bear in mind constantly that the ambassador is accredited to the Executive Branch, specifically to the President. Nothing must be done which could affect, even indirectly, this vital connection. Beyond this, there may be complications. Party discipline in the United States is not what it is here, for instance, and the separate powers of the state do not always operate in harmony. Hence, the obvious need for care in developing relations with members of the Legislative Branch.

I have said enough, I believe, to suggest that we are treading here on delicate ground. We can agree on the objectives, but the means have to be handled with suitable restraint and finesse. There is also the point that Congressional liaison could take an unlimited amount of time; it competes, necessarily, with many other pressing requirements, and, again, it is difficult to determine which is the most rewarding, the most effective use of Embassy resources. Our activities in this area are expanding. We now have an officer who is assigned to this work on a full-time basis. He develops links with the executive assistants and research specialists of the legislators; he keeps score of legislative contacts maintained by Embassy officers and constantly reminds them of this important aspect of their operations in their respective fields. The chief responsibility for expanding parliamentary or congressional liaison must rest, however, on all officers at all levels. The problem, as I said, is one of balance, of meeting competing claims and covering the whole front as effectively as we can.

The provinces are beginning to be a factor. Premiers, provincial ministers and officials appear on the scene in

Washington, New York, Boston and elsewhere, and they have to be welcomed and assisted. Our special kind of federation does not always facilitate the task of envoys abroad in dealing with provincial requirements. To provide maximum assistance and to co-ordinate operations between consulates and the Embassy, special responsibilities have been assigned in this area to a senior officer. As a result, provincial officials have a special point of reference, and we are trying to develop a coherent procedure and policy in handling provincial interests.

We have now initiated some reporting to Ontario on a few subjects of special provincial interest. We hope that gradually this will be extended to other provinces. We are prepared from time to time to brief provincial officials on special subjects. By expanding our assistance to provinces we hope to serve their interests and, at the same time, assert the federal responsibility for foreign affairs. The provincial interests program at the embassy will attempt to monitor provincial interests in the United States to ensure that, wherever relations with United States federal or state governmental officials are concerned, the Embassy or the appropriate consulate will be the channel of communication, or will be fully involved in any discussions which take place. The Embassy will be in liaison with the provinces through headquarters in Ottawa, through the consulates, and by attendance at meetings in the United States at which provincial representatives are present.

In conclusion, let me make a couple of special points. I could mention other activities, such as exhibitions by nationally famous artists or sports groups, but I believe I have said enough to give an idea of the kind and variety of our activities and to give some sense of problems concerning the priorities which have to be assigned.

Quite clearly, to enable the Embassy to reach its objectives, all embassy officers are involved in heavy representational work. They have to circulate a lot to expand their contacts. They have to entertain a lot, particularly to assist visitors from Canada. Social responsibilities are particularly heavy. This creates a problem in the management of one's personal energies and resources. Clearly, one cannot go out or entertain every night. Clearly, some weekends, some spare time must be found for recharging batteries, for reflection and for recuperation. In this area difficult decisions are often required, and the wives of diplomats, who bear the burden of hospitality, who create the atmosphere surrounding our United States' guests, are entitled to special gratitude. Their labours are taken for granted too often. I should add that operating a large household in today's conditions is a continuing headache, and it takes a lot of the time and energy of the ambassador and his wife to maintain the staff, to get the required supplies and to keep the show on the road. I have made recommendations in this field to my department which may help to reduce for my successors the burden of running the equivalent of a residence hospitality centre.

The chief problem I have encountered in Washington is simply one of the deployment of personal and Embassy resources. Theoretically, one could commit all that is available in any one field of activity, and even this might not be equal to the opportunities. There is obviously no limit to the amount of travelling or reporting or entertaining, or of information or management work, which one can undertake. One has to allocate efforts, as best one can, as seems indicated, but with a willingness to shift, to re-deploy, in the light of experience and depending on changing circum-

stances. All the time one must observe one's operations and consider whether priorities have to be altered. Our problem, of course, is that there is and can be no traffic controller. Embassy resources have to be committed, sometimes far in advance, to artistic and social occasions; yet missions from headquarters may become necessary and have to take place at the very time other arrangements have been envisaged. The Embassy is thus occasionally required to cope with simultaneous operations at various levels; but, in time, one adjusts to the realisation that the task is, precisely, "unpredictability". One tries to learn the values of improvisation and flexibility.

In a moment I should like to distribute several examples of the Embassy's information work in the United States. I have already mentioned the Report on Energy which we sent to top Administration officials and Congressmen last year, and the Embassy's monthly journal, "Canada Today". The issues being distributed are on French Canada and on important dates in Canadian history in the form of a 1975 calendar. I also have copies of our annual, "Country Programme", which we submit to Ottawa outlining our activities and budget requests for the coming fiscal year. The programme will give you the most detailed account of the Embassy's undertakings in the United States.

I realize that I have merely skimmed the surface of my subject. There is a lot more to say concerning the many aspects of the Embassy's task. I hope that I have conveyed the absorbing interest of the work and some of its difficulties. We are gratified by the opportunities we have of serving our country in such an interesting spot at such an exciting time.

The Chairman: Thank you very much, Mr. Ambassador. I am sure all of us are quite aware of the immensity of your task. Your comprehensive report has certainly outlined for us what we suspected to be the case, namely, a very heavy work load—albeit one which stems from the fascinating position you hold.

Senator Lafond, will you commence the questioning, please?

[Translation]

Senator Lafond: Thank you, Mr. President.

I would also like, Mr. Cadieux, to express to you on behalf of my colleagues and myself our gratefulness for having responded to our invitation. There is no doubt that the Embassy at the head of which you are presently is the most voluminous and the most important that we operate in the field of External Affairs and that, in the scope of our study, the best and the highest of all observation posts is the one you occupy.

[English]

Senator Yuzyk: Mr. Chairman, we are not getting the translation.

The Chairman: I am afraid you are right.

Senator Lafond: Mr. Chairman, I do not wish to delay the proceedings, but I should like to draw your attention to remarks I have made on previous occasions in the chamber with respect to the kind of translation facilities we get in committees. It seems to me to be utterly ridiculous that for mere mechanical reasons I should have to address my questions to the Ambassador in English.

The Chairman: Your point is well taken. It has been raised before and I will raise the specific question on behalf of this committee with the appropriate authorities.

I understand we are now getting the translation. Perhaps you could proceed in French, Senator Lafond.

[Translation]

Senator Lafond: I was about to say, Mr. Cadieux, that even if one hears rumours about your transfer, if they came true, do not be surprised if we invite you to appear again before our Committee before we complete our business.

I have noticed that my colleagues have taken down a lot of notes during your submission, so did I, but I will try to be brief and accurate in order to give them all the possible leverage.

My first question is the following: Is there an organization chart on your mission, or your embassy which could be presented to the Committee, which would enable us to understand better our facilities?

Mr. Cadieux: I do not have one here with me, but we could have one for the Committee very easily, and as soon as I return to Washington, I will ask to make those documents available.

Senator Lafond: Thank you very much. Now, you have referred to the presence, which we know in fact, of specialists, of department officials other than those of the department of External Affairs, who are in Washington. Of course, we know your mobility, your trips in both directions, but there must be a certain number who are appointed permanently in Washington, or almost permanently, without belonging to the department of External Affairs. Could you give us an idea of its magnitude?

Mr. Cadieux: You have essentially a sort of dichotomy within the embassy. The main element and the military one. There are about 200 military men who are there to fulfil two tasks; a first one, as military advisors of the embassy, and a second as a kind of subsidiary headquarters and manager of the staff of the department of National Defense, which Canada keeps in the United States to fulfil various duties, so that a number of military men on our list of officers seem beyond the needs of the embassy, but this team which serves the purposes of the department of National Defense to supervise those who, for instance, are assigned to military devices factories in the United States. When we place an order, let us say at Pittsburgh, for some tanks, the Department of National Defence delegates some of its experts in order to make sure that the product will be in accordance with their specifications. Also, you have service personnel in the United States who are in the commanding positions of international organizations of which we are members; you have a number of those, for example, at Norfolk, where the Headquarters of the Atlantic Command are located. Consequently, instead of actions concerning leaves, payrolls, sick leaves, being taken from Ottawa it has been decided for a number of years now that it would be simpler if those matters were dealt with in the country and the climate where they have to operate. Accordingly, this is a matter which does not come under the jurisdiction of the Embassy and views must be expressed on whether it is cheaper to perform those duties from Washington or to concentrate our operations in Ottawa.

Now, military personnel can also be required to carry on extremely technical relations with American services. If Canadian planes are equipped with engines of a certain type which are manufactured in the States, and that the Americans discover that check-ups must be performed every 5,000 miles instead of every 10,000 miles, it is quite important that our services be advised, mainly for the security of our personnel. Accordingly, service personnel entertain very close relations with the Americans in a wide range of fields and mostly in the technical field, which has a direct impact on the operation of our Armed Forces.

Now, the remainder of the Embassy's personnel, which amounts to approximately 100 officers, is shared out among the economic sector, the political sector and a number of technical fields.

In the field of energy, for instance, we almost always have one or two senior officials who come under the control of the related department—the Department of Mines and Natural Resources.

In the field of commerce, we have senior officials from the Department of Commerce who are included in the Embassy's personnel, and who are officers, permanent employees, not belonging to the Department of External Affairs, but to the specialized department.

You also have officers who represent the National Revenue. Others represent the R.C.M.P., the task of whom is to maintain a liaison with the U.S. services in their fight against organized crime. In this view, one of the tasks of the Ambassador is to make sure that all officers follow the same regulations. For instance, concerning work hours, or trips, in order that everybody operates under the same regulations and, which is more important, that they be aware of the government's views, of what we seek to realize in the United States, in order that they may say more or less the same things to their contacts, and contribute, when we want to make a report to the government, in what they have been able to learn during their contacts in their respective fields.

Now you have those who come under the jurisdiction of the Department of External Affairs, who operate essentially in the political field; but some of them are connected with other matters, and may be legal experts, as Mr. Clark, or experts in economical affairs, like Mr. Merklinger, or experts in energy matters, like Mr. Blackburn.

Now, you see that the departments have their own specialists, mostly in external policy matters, but in order to provide good operation, some consistency in the shop, all these departmental representatives must be treated on the same basis and must be informed of what is going on; their contributions must be sought and contact must be maintained with them, which can be performed by service reunions bringing together External Affairs officers and representatives of other departments. This way, you will obtain a level of consistency which will make place for higher efficiency and allow to bring about better results with the same team, or even better results with a smaller team than you would have needed without this high level of co-ordination and consistency.

Moreover, as you know, the government has been looking forward for some years to amalgamate Canada's foreign representation where possible in order to avoid duplication, and provide that promotion opportunities be somewhat the same from one service to another; and the Department of External Affairs has been for some years now the main supplier of the administrative infrastructure

of other departments, in the case of audit services, clerk services, filekeeping services, organization of the vehicle services; those are all common services provided by the personnel of the Department of External Affairs for officials from other departments.

I think this will give you an idea of how the people from the Department of External Affairs and specialists from other departments maintain a close contact with each other. We try to maintain a certain quality of treatment where we can. We try to keep in mind that we are a great family where what counts is not the permanent label stuck onto an employee, but the fact that he momentarily takes part in the operations in Washington, and that he can rely on the co-operation and the best efforts of all the members of the team.

Senator Lafond: Thank you, Mr. Cadieux.

Now, as far as the activities of the provinces are concerned in relation to the United States, the central government, the government of certain states, and even private interests,—you have mentioned in your speech, the particular nature of our federation and the problems that it creates, indicating, it seems, that you will be at the provinces' disposal to encourage a wider use of normal diplomatic channels in all of their transactions, but everybody knows that they will mostly do what they want, meaning that very often, they won't use them at all and this can cause you a lot of trouble. So, I would like you to tell us what kind of trouble you have had and what kind of trouble you are expecting?

Mr. Cadieux: I think you have a problem of some importance for our country. The Americans have a system quite different from ours: in their view, the states have much more limited powers than our provinces. In the Foreign Affairs area for example, it is already very difficult for the Americans to understand our system.

The second point, which is even more difficult to understand and which affects the impact we can have on the United States, is that in some provinces, there are governments with ideologies different from those of the conventional parties here and in the United States. It is an additional complication. So, when the Americans try to make up their mind about Canada, about what we want, about the direction our policies will take, they have a hard time to understand our system and how it can function, for the same reason Canadians very often do not understand how the American constitution can work with the way the powers are divided. The Americans too have a problem in this regard, but we have one which is very particular.

Now, I must say for many years, when I was here in Ottawa and when I went abroad, I was always concerned with the fact that, as we had not yet solved our constitutional problem as far as the representation of the overall interest of the country abroad is concerned, we had not prepared our relations and that on the international level we were only acting in areas of federal concern. Furthermore, when I worked for NATO as a young officer in Belgium, problems often came up as, for example, in the area of education. There were also problems in the area of labour, organization, law, and I wanted then, if we had been able to get information on that, to put it at the disposal of the provinces. I was thinking that such and such a province would certainly benefit from knowing what was going on in such and such an area about which a new legislation was about to be adopted. So when the question came up in Washington, as to whether we could

help or not, or put some things at the disposal of the provinces in the area of reporting, first, because it is one of the first area to consider; personally, I was pleased to study the question and see what could be done.

There are some difficulties that can be readily seen. If a certain government in Ottawa transmits assessments of a certain political character to another government having a different ideology, it may experience some difficulties. How do you separate what is purely a matter of fact from what is political opinion, what can be classified from what cannot. The federal government has guaranteed the protection of confidential conversations. Let us assume that I have a conversation with the Internal Secretary on a certain matter. If the provincial governments cannot assure the confidentiality of these conversations, there is already a problem. Moreover, there is another problem whereas the ambassador works for or within the spirit of the government which gave him his post. Thus, his reports are devised to have an influence on the people it is aimed at. If those reports are submitted to people of another political school, or of another ideology, the ambassador may find himself in the situation of trying to serve two masters at the same time. So there is a problem of screening the information.

Then, we cannot have the situation where every province could ask and embassy for a report on this, or a report on that. Here again, the embassy would find itself unable to establish priorities. What is sent by the embassy must be of provincial interest, it must be screened, and it must be examined by the government here, in order to see if it is appropriate, in the circumstances, to let it be known to the public. It is a delicate problem, but it can be solved—I think that we can do much in this respect in comparison with what has been done in the past—we will be able to take steps to alleviate the burden of the provinces, to put at their disposal information which they will find extremely useful, thus decreasing the pressure they are under to have their own office system abroad, and avoiding in this manner jurisdiction conflicts. Apart from the problem of reporting, they have a problem of support, in the help given to provincial groups going to the United States. There is a problem of traffic. If possible, we must assure that the embassy will support the Premier of the province or the provincial Minister coming to the United States, with all the efficiency needed. As our resources are not limited—as I was saying before—we must consider in what ways the embassy will have to use its resources; those visitors arrive sometimes in Washington quite suddenly, without any ill will on their part. Requirements come up suddenly and we must do what we can on both sides. These visits take place in New York, Boston, Washington, in our consulates, and insofar as our services can help, I think that it is best, since we want to work with the provinces, or avoid giving in the United States an image of confusion and the impression that there are conflicts between different levels of government; because that could have implications in many other areas, like investments, for example. We must make sure that the constitutional conflicts which we understand, are not sometimes misunderstood outside the country and do not create an unfavourable impression as to the future of our country. Those are the consequences and eventual implications of these relations between Ottawa and the provinces, as far as foreign representation is concerned.

Senator Lafond: For those provinces which have a rather important volume of transactions with the United States, if they thought it advisable, would you find it

acceptable or useful for these provinces to designate a delegate on an almost permanent basis to your embassy in Washington?

Mr. Cadieux: There are here two possibilities. You can have a situation in which a new provincial representative lives within the embassy. So you will have integration problems, since the question will be to determine if he is entitled to diplomatic privileges. If he is arrested, should I say that he is protected by diplomatic immunity. If he is integrated, then will the provincial government consent to lend or detach one of its agents and submit him to the authority of a federal agent? In some cases, it can be easy, and in others, more complicated; because, let us say that the two governments are in conflict on some questions,—it is the spirit of our system that provinces do not always agree with the federal government.—If a provincial agent is in our embassy in Washington and sends reports that I have to approve personally,—(otherwise it becomes difficult to have subordinates that are not under your control), he can be placed in a situation where there would be for him a conflict of loyalty. Then there is another question: would Mr. X be employed as member of the integrated team, that is to say Mr. X from such or other province; and then we will say: very well, you are in the energy field, you are no. 2. Then he would do what his federal colleagues do and take the risk I have just mentioned—or will we say: no, you are from a province, and you come from that province. Then four or five provinces could each place a representative in a same field which could generate a useless duplication or confusion for our partners.

As you can see, there are complex problems to solve. I think that, before we answer the question of knowing how to place those agents within our consulates, we must solve the problem of how the provinces will cooperate. How will they establish their relations with the central government, as far as foreign affairs are concerned?

I think that it is only after the general context will have been clearly defined that we will be able to determine to what extent we can plan provincial representatives within our missions. Personally, I think that it would be advantageous to expand federal services to the point where we could fulfill the needs of the provinces. But if a province has a very particular interest in a certain field, if it is only a temporary situation, I think that, as is the case with delegations to international conferences, that we could accept a representative from a province as member of the team. I think that it would be the most efficient method. Aside from this, there are of course many of the solutions that you know: separate offices and distinct operations. There are undoubtedly some advantages in using this method. The provinces have exactly what they want, when they want it. But there is in some cases a danger, since we can create the impression that we are scattered, that our policies are not coordinated, and this could affect our image and prejudice our interests.

Senator Lafond: Thank you very much, Mr. Cadieux.

[English]

Thank you very much, Mr. Ambassador. I may have further questions to ask as other subjects are being dealt with.

Senator Carter: Mr. Chairman, I should like to ask some questions about one or two subjects brought up by Senator Lafond. He began by asking if you could provide us with an organizational chart of your embassy. Perhaps it is not

fair to ask this, but I wonder if you could give us at the same time, or even now, some information as to how your embassy in Washington compares with the United States embassy here with regard to the number of personnel, the departments involved and how it is organized.

Mr. Cadieux: I am not in a position to do that. I know a little about my own mission in Washington, I hope, but I am not at all familiar with the internal organization of the United States mission here because I have not studied it. I am not at all your best source.

Senator Carter: Senator Lafond finished his questions by asking what problems might arise if you had provincial representatives at your embassy, and you have just outlined the difficulties as you see them. Would the same difficulties arise if these provincial representatives were attached to consulates?

Mr. Cadieux: Roughly the same. At least, that is how I see it. It is not a problem which has been fully worked out, but my own experience is to the effect that if you have an agent of a province attached to a consulate and he says something that is unacceptable, then the State Department would call me in and they would ask me, "Why has this man, who is attached to your consulate, said this?" At that point what power would I have to discipline him? Does he belong to us or does he belong to a province? If he belongs to us, we can discipline him, sending him back or instructing him never to make such statements in the future. However, if he does not belong to us, I am sure you can perceive the difficulty which would arise. Problems also arise with respect to parking tickets in the cases of those who believe that once they have a diplomatic or consular card they are entitled to more freedom than they enjoyed previously. (In fact, the rule should be the opposite). Suppose a provincial representative behaved in this manner, he would of course, be no different from many federal representatives; but a provincial representative, just like some federal agents, may collect parking tickets and not pay too much attention to them. How do we convey to him that if, in the future, he does not behave and is not very careful about these matters we will have to take some action? Ultimately, the man who is responsible for the consulates in the United States is the ambassador. Therefore, as I see the terms of the posting of such a man, ultimately the relationships between the two governments, the consulate and this man have to be the determining factor.

Senator Carter: Do the consulates report through you to Ottawa? Are there instances in which they report directly to Ottawa?

Mr. Cadieux: As presently organized, the consulates, in the nature of things, have to place very considerable emphasis on trade promotion. As you realize, that is to us a fundamental, bread-and-butter issue. With respect to these matters they, quite correctly and properly, communicate directly rather than through the Embassy. Connections between us and them are in terms of commercial policy. The Embassy deals more with policy in liaison with Ottawa, and if there were policy aspects bothering, handicapping or restricting a consulate, it would work with us and we would endeavour to develop for Ottawa a broader picture of what in our opinion created a problem, either in Washington or in Ottawa.

We work more closely with the consulates in the field of image projection and public relations. This situation may

change in time, as the consulates develop closer communications, through classified channels, with Ottawa and with the Embassy. For the time being, I have a direct linephone with Ottawa, together with classified telegram communications, and receive a picture of policy development and discussions here which the consulates do not have. I have found in my travels in the United States that when I go to, for instance Detroit or Dallas, it is much easier for me than for the consul or the consul general to call on a newspaper editor and ask if there is something on his mind. He might reply that is not too clear with respect to a certain aspect of our energy policy, or the auto pact. It is much easier for me, because I have this information, to discuss these subjects, than it would be for the consul. However, we are working now, as I mentioned in my general statement, on a system which will result in consuls and consuls general being "plugged in" more than has been the case in the past. In the future they will be in a position to call on editors, local, state and municipal officials and make our plea. I also visualize the time when, if an important policy decision were made here which, in our opinion, required interpretation in the United States, apart from what the Prime Minister and the ministers might say and the debates taking place in Parliament, all senior Canadian officials would move together along the same line, simultaneously. In my opinion, that would be a great deal more effective than what can now be accomplished. As I say, we are working towards this.

There is also the other aspect, that when it comes to policy I assume that I am the spokesman of the government and in terms of dealing with the Administration I have the monopoly. In terms of addressing the public I develop speeches with my team and clear them with the authorities here as sort of unofficial guidelines. The consuls and consuls general receive copies and generally accept the contents as the line, objective or target. I plan these speeches having in mind an assessment of what may be advisable to stress during a certain period in order to educate and persuade the American public. In this area I work closely with the consulates, and it is one in which I believe they defer to my broader and more formal responsibilities.

The arrangements with the consulates are excellent. They are senior people, some of whom have been ambassadors more than once. For instance, Mr. Rankin in New York has been ambassador to Venezuela and, I believe, Argentina. He has held very important posts. It is a matter, therefore, of carrying on discussions as to the advisability of certain courses. The system works quite well, although I know that in time we can tighten it up and make it a little more effective; we can develop a little additional punch. Basically, with regard to trade they are essentially on their own; in terms of policy, there is a government to government relationship at the political level and involving the Embassy. In terms of public information, I have more resources and attempt to develop, unofficially, our policy line.

Senator Carter: One of my reasons for asking if you could give information with respect to the organization of the U.S. Embassy here is that I assume their objectives and function are very much the same as your own, such as collecting information. However, differences arise in connection with certain issues. It seems that when they get together there are two different sets of facts. I find this situation difficult to understand, because I assume that the United States Embassy here keeps its finger on the pulse of public opinion and collects facts. Our Embassy in Wash-

ington carries out the same function, but somehow or other it does not seem to work.

For instance, we experienced the beef issue. When it came down to the crunch we had one story as to what was involved as the real issue, and the Americans came forward with quite a different version. How do you account for this? If I remember correctly, Mr. Whelan stated that this was a general embargo and not directed at the United States alone. It is true that the Americans felt it affected the United States more because, of course, there is a greater amount of trade between the two countries than with others. When the United States retaliated in kind we considered that they were wrecking the GATT. I cannot understand how two institutions or organizations focusing on the same problem can arrive at divergent sets of facts.

Mr. Cadieux: I am not able to inform you of the processes involved in that case. However, in general terms, when embassies report on facts there is a great deal of selectivity. Every day in Washington when I read the newspapers I find they contain so many matters on which we could report that the first thing I realize is that we must choose. Once we have made our choice it is not a matter of one day to make up the report. For instance, in an endeavour to provide the authorities in Ottawa with an assessment of the meaning of the Soviet decision not to proceed with the trade agreement we must bring our people together and decide on our assessment and who would be the best people in Washington to give us a reading on it. While this is being done and consultations are taking place with certain officials—one cannot consult everyone and his uncle—we are narrowing the choice and perhaps slanting the issue. There is an interpretation here, in the pre-selection of the subject and in the selection of the people who can interpret it. That is the first factor. With the best will in the world, an embassy cannot provide complete and blanket coverage of everything that is happening. We have to bear in mind constantly that our job is not to compete with the news media. The big news agencies will always beat you to the deadline here in Ottawa. We must assume that Ottawa is aware that the U.S.S.R. have done this thing. What we have to trade on—which I think is a very important point—is that what headquarters want from you is not the raw facts essentially, but what you think they mean, at times not only in general terms but in terms of the possible impact of a certain development on Canada. That, I think, is the first point.

The other thing that you have to bear in mind is that an embassy may well report something to a department which is one of the contributors to what is a collective decision on the part of the government based on input from many departments and other sources. An embassy may say, "I think it is black." It goes to the Department, which sits down with other departments, and you may end up with a feeling that although it seems that way to the embassy, and perhaps it seems that way to the Department, the national interest—taking into account a variety of considerations—compels the government to take a position that does not correspond to the embassy view.

As you can see, the embassy is concerned more with interpretation than with very extensive factual reporting, and its input, its judgment, may not always be—in fact, it is in the nature of things that it will not always be—endorsed by the Department and the government.

You have to accept, I think, when you report from a post, that your job is to give the best reading you can of the local situation. You then have to accept that this is not the end,

that in the national interest those who sit above you and look at the total picture, in perfect good faith and with justification, will gainsay your conclusion.

Senator Carter: I can understand that. What bothers me is that, say, the United States Department of Agriculture might gather a certain picture of the beef situation here in Canada. Do they get that picture from their Embassy here? Do they check it with you to see what your story is? How does it happen? I am not interested in press reports. I do not think anyone believes what they read in the press any longer. That is the reason why we have embassies, so that we do not have to depend on the press.

Mr. Cadieux: I do not want to talk about the situation in the United States, but I would like to address myself to a theoretical situation which may have relevance here. It is conceivable that not all departments see eye to eye as to how to handle a problem, and reaching a reconciling viewpoint is really a process that can appear to be very funny, officials may not seem very bright or very efficient. The truth is that in these days when problems arise they are very complex; each department and agency is charged by law to make a judgment on the aspects of that complex problem that affect them. At first you get a variety of views which is, I think, the way we operate. Gradually, a consensus develops, this is a gradual process, an end product. The embassies do not control that, and even departments do not control that. In the end it is very hard to know what the "facts" are and what the ultimate outcome of the debate will be.

In the situation you have mentioned, I think that in this country those who are concerned with agricultural interests have followed a path. There are other considerations that have to be brought to bear. In the end governments and Parliaments have to decide which aspect of the national interest is to be given prime recognition. As I indicated, embassies play a modest but, I think, useful role in indicating what may happen. An embassy may be asked, for instance, "If we do this—do not talk to anyone about it—what do you think will be the reaction?" The best you can do is give an opinion. When your opinion is given to those who make the decision, they may or may not believe you. They may say, "I think the man is exaggerating or is underestimating this." Once they have that fully in mind they may say, "That may be very true, but there are these other compelling requirements. Even if we accept the embassy's judgment, we are not able to take their advice." This is something that does not always make the lives of foreign representatives abroad easy. Sometimes you feel that your wisdom should be recognized and that your point of view should prevail. But I think that as you gather experience—and if you assume that everyone is working in good faith and is doing his best—you accept the fact that you do not win them all. You do your best, but these other people, for perfectly legitimate reasons, adopt an alternative view. You may recognize that if you were in their place you would make the same decision.

Senator Carter: I have one further question related to my earlier question. A minister or deputy minister may go down and speak with his counterpart in the United States. Are they comparable authorities in the United States? How does our minister or deputy minister compare with his counterpart in the United States?

Mr. Cadieux: Generally they do not always coincide. In some cases they do coincide perfectly, but in other cases they do not. In that case, instead of meeting with only one,

your official, who may cover the whole subject, may have to deal with two or three persons who together cover the field. That I think is the way we try to solve it. But it can be a problem. In some cases we have a cabinet minister who deals with one subject. In the United States you may have one who deals only indirectly with it. You may have someone who is in charge of the council that is concerned with environment. This is one of the jobs which the Embassy performs. If a minister or his deputy says, "I want to go to Washington to discuss this or that problem," we have to study the local situation and say, "If you come and if you want to discuss that subject, this is the one man or these are the people you will have to see." We then try to determine mutually convenient dates and in consultation with Ottawa try to decide what kind of encounter it will be. We try to work this out in such a way that both sides derive the maximum benefit in the small amount of time that can be made available. It requires a good deal of preparation careful work and follow-up.

So far as I am concerned, this is the substance of our relations with the United States. I am never happier than when I see people who come to the United States—whether it be a minister or officials—have a good meeting with their counterparts. If they carry on afterwards, by means of telephone contact or correspondence, so long as they keep me in the picture I am delighted. I have no expectation or desire to climb on top of those conversations. My job is to facilitate them, not hamper them. There is the problem of having an overall view. It is important that if we proceed in a certain way in a particular field, we should not blindly proceed in another way in other fields. It may be that we should proceed differently, but we should not do it by accident. We can only do that if we in External Affairs, at the Embassy and here, have a comprehensive picture of what is going on. It is more efficient.

Senator McElman: My question is along the same lines. In our relations with overseas countries, such as the U.K., on the Continent, and indeed with South American countries, when a problem arises or can be foreseen the embassy does the initial preparatory work, holds discussions and, if necessary, officials move in, or on occasions the minister moves in. It seems to be a very effective process in diminishing problems which arise between Canada and other nations. Yet we have the statement by the Ambassador that because of our geographical closeness, and otherwise, to the United States, our Embassy in Washington does not formally negotiate on behalf of federal government departments or, indeed, the government itself. Is not the prestige, the image, the influence of the ambassador and the embassy itself diminished when a minister or senior official moves in very quickly and starts direct discussions and negotiations without the assistance or direct involvement of the ambassador?

Mr. Cadieux: In the old days, when the volume of work and the pressure of events was not such as it is now, ambassadors certainly played a more substantive role. Now, however, the range of subjects to be discussed and the speed at which those discussions must take place are such that I do not think you could find an ambassador who would have the universal expertise required for such negotiations. It takes time to brief oneself on the various subjects which come up.

I do not know how other ambassadors would feel about this, but certainly if there is to be a round of discussions or negotiations with the United States in respect of energy, I feel such discussions or negotiations should be handled by

the minister himself. I could be briefed on it, of course, but it would take considerable time. In addition, there would be two dangers which I can foresee, the first of which is that some of these questions are highly political. They are debated on a daily basis in Parliament, and in order that they be handled effectively you need someone who is fully familiar with them. It is conceivable that an ambassador could absorb and be sensitive to the problem, but he is unlikely to achieve the degree of responsiveness and expertise in the area which the minister and his officials would have.

The second thing to be taken into account is that the ambassador must keep the goodwill of those with whom he is dealing. As long as our interests coincide, arrangements can be worked out which will lead to a mutually acceptable agreement. However, it is conceivable that in some areas we may disagree with the United States regarding the policy to be followed. If such a result is achieved through the ambassador, negotiations leading to that result may conceivably affect his usefulness. In other words, by having a direct involvement in such negotiations, the ambassador gets into controversy and conflict with some very senior members of the administration, of the government with which he has to deal. If he is too vehement, too hard, in advancing the point of view of his government, his effectiveness in other areas may be affected. This would have been the case in respect of the energy situation, where Canada took the position that it had to reduce its export of energy resources to the United States. Had the ambassador been directly involved in those discussions, his effectiveness in other areas might very well have been affected. Such areas of controversy which are clearly related to day-to-day political developments in this country should be handled by those who will ultimately have to answer for the decisions made.

Of course, the ambassador will be present and may take part in the progress of negotiations; he does have a certain input. However, if someone has to say "No" to the people with whom the negotiations are taking place, then it should not be the ambassador, as he has to live with those people following the negotiations and will have to seek favours from them in other areas. Those, I think, are the two aspects which have to be looked at.

The role of the ambassador would become almost overwhelming. He could not possibly take part in all the negotiations which take place and still perform his other functions. If the ambassador were to develop the habit of heading delegations on these technical subjects, there is the possibility that in those cases where he does not do so, the subject may be considered of lesser importance and, therefore, the negotiators on behalf of the host government could be a little tougher in their negotiations. In other words, the ambassador would have to get involved in almost every round of negotiations on every subject, which would be an overwhelming task.

Undoubtedly, Senator McElman, your point is well taken. I think that in former times, when the ambassador dealt with everything, his importance, his status, his prestige, were certainly greater. However, now that we are into controversial and intricate areas and there are so many of them, I do not think, first of all, that such a course is possible and, secondly, I am not sure that such a course would not be damaging to him ultimately in carrying out his functions.

Senator McElman: I can see very clearly the propriety of this stance in special circumstances that do arise, such

as those in connection with the beef quota situation. However, it seems to me that the very nature of the profession of ambassador is one of diplomacy. Unfortunately, diplomacy is not one of the strong points, on many occasions, of a particular minister.

Senator Flynn: Would you care to name the minister?

The Chairman: No names!

Senator McElman: As a general rule, diplomacy is not the profession of ministers. It does seem to me that it appears to have developed that the general role as between Ottawa and Washington in connection with problems affecting the two countries, because of our closeness geographically and otherwise, may have developed whereby negotiations take place between the departmental officials directly, without any involvement by either yourself or members of your embassy staff in Washington. I am wondering whether some reversal of that trend would not be advantageous to this country.

The Chairman: Perhaps Ambassador Cadieux would feel free, Senator McElman, to tell us, in response to your question, without naming individuals, whether or not there have been occasions when ministers or departmental officials have not consulted the embassy sufficiently or not invited a member of the embassy staff, or the ambassador himself, to sit in on discussions so that the embassy could be properly briefed.

Mr. Cadieux: Well, you will remember what Saint Augustine said about the love of God; *the only measure is that there is none*. In a way, an ambassador always welcomes prior consultation with the minister concerned and the government, and in this respect it is always a question of degree. There are many ways whereby ambassadors can get involved in negotiations without heading the negotiations and without being the spokesman. For instance, there is the question of the timing of the visit, and also the question of the instructions given to the minister and his officials. Here you get into very sensitive areas regarding relations between ministers, the makeup of government, and so forth, and it is not something that ever reaches perfection. Naturally, the ambassador does not control these things, so he has to adjust to the situation within the country at the time and hope for the best. However, he can make an input before the visit develops.

The ambassador, invariably, meets the visiting minister and has an opportunity to talk to him and go over with him questions as to personal influences, attitudes of ministers and officials, ranging from international relations to relations between themselves and their colleagues, and so forth. I think it is very difficult to generalize. In the end, the ambassador has to adjust to whatever the government of the host country will tolerate.

Regarding Senator McElman's point as to whether or not he loses prestige or effectiveness because he does not lead the negotiations, I would say that in some ways the answer is yes, but in other ways, the answer is no. In many ways there are channels open to him to exert his influence on the negotiations.

Ultimately, it is a question of whether the government, or whether Parliament, or whether public opinion indicates that the problem ought to be handled one way or the other. In that respect, the mood of the country, the circumstances of the case, the relationship between the various ministers, the style of the government in power at the time, are all factors that are relevant to such a decision.

These are all factors that are relevant to this, but, generally speaking, my impression in Washington—and this is the other side of the coin—is that if you do not lead the negotiations this may give you a flexibility in talking to the people to whom you are accredited which you may not have otherwise.

You know, before the minister comes the ambassador may find opportunities to sit down with the chief negotiator to make a few points that will be more readily accepted, because it is not expected that this is the man you have to take to mat and somehow overcome. In many ways there are advantages. You know, it is really a matter of judgment but, all told, I would be inclined to say that if the ambassador has good access to his ministers, and the ministers have confidence in him, that his influence on the timing, the atmosphere, and the outcome of the negotiations will be greater if the burden is carried by the man who is chiefly responsible to Parliament for this, with the ambassador a little in the background.

That would be my opinion. But it depends on many of these things. I think that to allow the ambassador to make his contribution, to give his best judgment, is a wise practice—always subject to the point that there are other considerations which may lead responsible officials not to go along with him.

Senator McElman: I will not pursue the point further at the moment, except to say that we all find abhorrent the thought that representatives of the ten provincial governments could be wandering around willy-nilly in the United States, with perhaps unfortunate results owing to our necessarily close and involved relations with the United States because we are neighbours. The only thing I could find more abhorrent would be thirty cabinet ministers or their senior representatives wandering about willy-nilly in the United States and the effect that might have on relations between the two countries.

Mr. Cadieux: Well, it has not been a danger during the five years that I have been in Washington.

Senator McElman: I appreciate that.

Mr. Cadieux: On average, I think, cabinet ministers come to Washington at the rate of about one every month or a month and a half. These visits, on balance, I find much to be welcomed. That is, each time a minister comes to discuss something it means that your relations with that sector of the United States administration have been brought to a higher level and have become more intimate. Because of the size of official Washington you cannot go on cultivating people all round the map against the day you will need them. All the time you are preparing the next visit, and then the next one and the next one, so that you achieve the same results in another way. I think it is more effective.

The social side of it helps very much too, I think. You have the official meetings and then, if you can have a reception or dinner or a luncheon for, you enable visitors and USA officials to come together under your roof and achieve a degree of personal rapport. It may put them on a first name basis. They can call each other. They know each other. They can size themselves up fairly quickly, and sometimes it creates a degree of confidence that solves a lot of problems which never arise because they can phone each other.

I think that is the greatest asset that we have as between Canada and the United States. There is no cultural gap,

basically, between us. We understand each other almost instantly. If I may say so, I have seen legislators come from Canada and meet their counterparts in the United States. They understand each other so readily that I am always amazed. If they say, "I have an election coming and there is this problem," well, the other faces the same kind of contest so he recognizes the situation. If one of our legislators says, "Public opinion in my country won't stand for that," they know what that means. And I think the same thing holds true as between officials.

I think it is really the job of the Embassy to encourage that. These are assets, and any time a Canadian minister is in close rapport with his colleague in the United States, I am happy. I consider it my job to do what I can to help this. So when he comes and says, "I want to have words with my good friend," and those two get together for a snack alone, I think that is very good, particularly as afterwards, in most cases I know these ministers, I am really fully briefed as to what has happened. So this is a plus, I think.

Senator Grosart: On the question of provincial activities in the United States, first of all, Senator McElman suggested that all of us would find abhorrent the idea of provincial representatives running around the United States. I might say that there is one exception. It is not abhorrent to me.

Mr. Ambassador, you mention at page 15 that you have a senior officer in the Embassy charged with special responsibilities in regard to the provinces.

Mr. Cadieux: Yes.

Senator Grosart: What is his title, and who is he?

Mr. Cadieux: His name is Mr. Singleton, and he is responsible for maintaining liaison. I do not have his exact title in my head, but essentially it is related to his duties, which are to provide a point at the Embassy with which provincial officials can communicate, if they wish anything from us. If they send somebody and want us to make hotel reservations, or want us to connect them with U.S. officials, Mr. Singleton is the man who will advise them, and bring into the picture as necessary the experts in the particular field.

If someone wants to come to Washington to discuss energy, then Mr. Chappell will be brought into the picture by Mr. Singleton, and then Mr. Singleton keeps an eye on the reports that we provide at the Embassy. He constantly asks himself the question, which I have found over a period of time is difficult for operational officers to do, "Is this of interest to provinces?" And then he draws this especially to the attention of headquarters here in Ottawa, and they decide in the light of the general picture what it is appropriate to provide and to whom to send it. He does not do that directly. Each time he gets a request for assistance he will get in touch with headquarters in Ottawa and keep the government here fully in the picture as to what is intended, and if further contacts between Ottawa and the provincial capital are required this triggers it. I think it is important that this should be part of the picture.

Again this man at the Embassy keeps in touch with the consulates. It seems to me that it is important if the government of Newfoundland, for example, wants to send officials to Boston, that the treatment of those officials should be identical to that provided officials from the government of British Columbia, for example, should they

wish to communicate with the consulate in Seattle or San Francisco. So that the consulates are on standing instructions to alert us immediately if there is a request from any province for anything. All this is reported to Ottawa so that we develop here an awareness, if we can, of the totality of the activities of the provinces that may have possible implications for us—constitutionally, financially, in tourism or trade. The idea is to get the picture together and to work consistently, and to provide a convenient reference point to the provinces.

Senator Grosart: What is his title?

Mr. Cadieux: He is a Counsellor.

Senator Grosart: But does he have a specific title relating him to this provincial area.

Mr. Cadieux: Yes, and I could get it. The reason I am a little uncertain is that we have had some discussions as to how we should define that and right now I do not have the title in my head, but the position is in all our establishments.

Senator Grosart: But he does have a specific title?

Mr. Cadieux: He does have a specific title which relates him to provincial interests and activities.

Senator Grosart: You indicated, Ambassador, that there is a circular communication. Does he communicate directly with heads of provincial governments?

Mr. Cadieux: No, he would not do that. If it was a head of government, very likely the request would come that the premier wishes to speak to me, and I would immediately be in the picture. His job is so that the provinces know whom to call. Suppose a province wants to send somebody to Washington to discuss a pollution problem. Well, they would not always know whom to contact. So now they know, and we have broadcast that, there is a man at the Embassy who looks after that and puts them on to whoever is the functional expert at the right level, corresponding to what they want. If a junior official is coming I would not necessarily be brought into the picture, but if it is a minister or a deputy minister then the officer is responsible for alerting me, and alerting Ottawa, as to what is happening.

Senator Grosart: But will it not happen in time that even the premier of a province will pick up the phone and say, "This is the man I want to talk to," and will talk to him?

Mr. Cadieux: Well, of course, this is possible. Anybody can call anybody at the Embassy. That is no problem. If the premier of a province wanted to speak to Chappell, that would not worry me; but within five minutes Chappell would be on the line telling me.

Senator Grosart: Or Singleton?

Mr. Cadieux: Or Singleton, yes. The idea is that we all know what is happening, both in Ottawa and at the Embassy, and at the consulates. So far as possible, we are facilitating the achievement of what the provinces want, and we operate in a cohesive, supportive and co-operative fashion. This is our hope.

Senator Grosart: Ambassador, you say, on page 15-a of your remarks, that it is one of the policy objectives to assert—that is the word used—the federal responsibility

for foreign affairs. Is there not a provincial responsibility for foreign affairs in those areas in which they have exclusive legislative jurisdiction?

Mr. Cadieux: Well, this is, I know, a complicated question, and here I am under the instructions of the government. I have to operate on the basis of the instructions they give me. Whenever something like this comes up, whatever it is, I refer it here, get my instructions, and behave accordingly.

Senator Grosart: So the instructions are still, generally, to assert the federal responsibility in all matters, regardless of the jurisdiction of the provincial government.

Mr. Cadieux: I assume that Canada is a country, and not a collection of countries. Therefore, unless I am instructed otherwise, I believe that this is a unified country, and that internationally there is but one country, namely, Canada. I do not consider that provinces have an international personality. These are my instructions, and I behave accordingly. I would not be prepared to agree to provincial officials coming to Washington and, without the agreement of the federal government or my agreement, call on whoever they wanted to see down there without myself or anybody working for me being there, and saying anything they wanted to say on any subject that they particularly chose to deal with. If that were the case the picture we project in the Administration of the United States would be one of utter confusion. I may, for instance, say to the Secretary of the Treasury that Canadian policy is so and so, and I could not live with a situation where somebody from a province could go to the Secretary of the Treasury on another day and say exactly the opposite, or say something that I would not know of. It means that I would lose control completely of our relations with the United States, and I do not think that I could perform in those circumstances, simply as a matter of practical requirements.

Senator Grosart: But is that not happening all the time?

Mr. Cadieux: Well, so far as I am concerned, I am not aware that it is. I am not aware that anybody is calling on officials of United States departments behind my back, so to speak, or without my knowing that it is happening.

Senator Grosart: I assure you that it is happening, because I have sat in on provincial commissions where there was, in one case, an assistant secretary of state for commerce present. There is no question that it is happening, and I thought you would agree that it is happening.

Mr. Cadieux: I am not aware of it, and I assure you that if I were aware of it I would be very quickly on the telephone to Ottawa, to warn the authorities and see what we could do about it. I tell you frankly that if anything is calculated to weaken the prestige and the effectiveness of the representative of Canada in the United States it is that kind of happening. I think it makes for poor co-ordination, and it projects an image of looseness in our organization and a lack of co-ordination that I personally deplore.

Senator Grosart: I am not at the moment discussing what might be the result of this. However, we are interested in getting the facts of what is going on at the present time, and what the channels of communication are at the present time.

In another place on that page you say:

—the Embassy will attempt to monitor provincial interests in the USA to ensure—

And that, again, is the word used.

—that, wherever relations with US federal or state governmental officials are concerned, the Embassy or the appropriate consulate will be the channel of communication or will be fully involved in any discussions which take place.

Is it not the situation that provincial governments are in fact dealing directly with state governments? I am just asking you for the facts.

Mr. Cadieux: I am telling you that my understanding is that what I have indicated here is what we want to achieve. Provincial authorities may get in touch directly with state authorities—this is something that may happen, of course—but, speaking for myself, this is not something to be desired, because you develop differences between what provinces in the east and states in the east may do, and what provinces in the west and states in the west may do. They may be discussing, or dealing with, things that have federal implications that we do not know about, and I think, generally, this is not good. It is not efficient.

I am not saying that I want to tell them what to do—that is something else—but I think that as the representative of the whole of Canada in the United States I have the right to know what is happening so that I am aware of the totality of our relations, and the significance of what is going on between the important parts of Canada and the important parts of the United States. These things do not develop in a political vacuum. These things do not develop in terms of indifference, so far as federal and national interests are concerned.

Therefore, I think it is very important that we should continue to provide as much co-operation as we can, and to assist as much as we can. I do not envisage our role as being that of a policeman, but as that of a brother or a partner, and doing everything we can to facilitate everything they want to achieve. I do not think of my role, or of our role, in the United States as being one of screening everything, or as one of simply creating difficulties. We are there to assist in making sure that all the parts are kept together and that we are working together to achieve the same national objectives.

The Chairman: Could I, in connection with your most recent question, Senator Grosart, ask the Ambassador a short question?

Some months ago, when Premier Barrett of British Columbia—which is my province—went to Seattle with, I believe, his Attorney General, who is also his Minister of Energy, and Fuel, and met with Governor Evans to discuss such matters of importance as the export of gas from British Columbia, tankers in the strait of Juan de Fuca, and the Skagit Valley problem, did you, or your Embassy, have a representative at those meetings, or were you invited to do so?

Mr. Cadieux: I would not have gone myself, but the Consul General, I know, has kept in very close touch with the situation. Whether he was present at the meetings I do not know, but he has access to the Governor of the state and the authorities there, and I know he has provided Ottawa with full information as to developments that took place.

The Chairman: Do you know if he was actually present at the meetings?

Mr. Cadieux: I do not know if he was actually present, but my hope would be that in such circumstances it might be possible for a federal representative to be there.

The Chairman: Would it be of interest to members of the committee to know whether a federal representative was present at those meetings?

Senator Flynn: Certainly. Why not?

Mr. Cadieux: We can find out quite readily whether he was there or not, but my general belief is that in these cases it would be appropriate for federal representatives to be present.

Senator Grosart: I think Senator McElman would like to ask a supplementary question.

Senator McElman: Yes, Mr. Chairman. My question has to do with the development council on the eastern seaboard. The Maritimes Premiers have a council of their own. The Governors of the northeast United States have a council of their own. There is now a movement under way to consolidate into a council of governors and premiers. They have already had meetings, I believe. Has the Embassy been involved in any fashion, in advance of or during these meetings?

Mr. Cadieux: If my memory serves me, I think both the Embassy and the State Department were there and followed the meetings. I think that this is a very constructive development, and that the more regions in Canada and in the U.S.A. get together, the more effectively they will be able to serve the requirements of their constituents; but my understanding is that both we and the State Department were there. I think that on the United States side they have an interstate compact arrangement. I think the states can make arrangements with other countries, but only if Congress is in agreement. I think the authority of the federal government there in terms of treaty-making is a good deal clearer than it is in this country. A treaty there that is approved by two-thirds of the Senate is the law of the land, and is binding on every single state, no matter what the subject is; while in this country I do not think an international agreement, for instance, would have validity if it invaded the field of provincial jurisdiction unless the provinces agreed. The powers of the federal state are much greater there.

Senator McElman: Here?

Mr. Cadieux: No, there. The powers of the federal government in terms of international treaty-making are much greater. So the State Department is legitimately interested in meetings between states and provinces that might lead to agreements that would have an effect abroad.

Senator McElman: It would be very useful if the Ambassador could inquire and advise us as to what arrangements in fact took place in this specific case.

The Chairman: In the Barrett case, and in the one you raised.

Senator McElman: I am talking about this one in the east which has an ongoing, formalized, structured development.

Senator Grosart: Mr. Ambassador, you were a very distinguished international lawyer, at one time in your career. Would you not agree that this very fact that you have mentioned, that Canada as a state is not sovereign in

international law with respect to treaty-making—nor are the provinces, of course—would indicate that the provinces have the right—and here I am not speaking of Canadian policy—in international law to contact directly the appropriate authorities with similar jurisdiction in any particular field in which they have exclusive jurisdiction? Perhaps I can put it this way: As a matter of fact or opinion is there any legal, constitutional or practical barrier to a province's doing this?

Mr. Cadieux: I do not want at this stage to get into the question of international law or constitutional jurisdiction because I have been out of that field for a number of years now. I think that five years ago, or before that, when I was the legal adviser and when I was involved in current development, I could have handled this question with assurance and, I hope, to your satisfaction. Even now, if you were to ask my personal opinion, that again would be something else. However, I think you will agree that if you are ambassador in Washington and you are trying to create an image of our country and exercise some influence, then the job is more easily done if there is cohesion between the various parts of the country. This is a simple and obvious point. Beyond that, however, I am reluctant to go into this question because, as I say, I am not the legal adviser now, and I have been engaged in a few other things besides international law recently.

Senator Grosart: Obviously you have become a diplomat. Perhaps I can pass on to a question about the structure of your staff. You have used the term "administrative structure" in reference to your responsibility covering those who are temporarily members of the staff but who are actually employed by different departments of government or by crown corporations. Who pays them?

Mr. Cadieux: We do.

Senator Grosart: From where do they get their instructions?

Mr. Cadieux: From their departments, but their instructions, when they are part of the integrated team, are the result of consultations between the two departments.

Senator Grosart: To whom do they report?

Mr. Cadieux: They report in some cases, if it is a matter of routine or of standing instructions, directly, and I get a copy. In cases where it is a matter of importance and there is mutual judgment to be exercised, and if there are political or other broad implications to what they say, it has to be cleared with me.

Senator Grosart: Are there any internal or administrative guidelines laid down to control this flow of information, negotiation and consultation at the many levels between Canadians and Americans? Here I am talking generically, because we have been told in this committee that there are hundreds of telephone calls going back and forth between officials at various levels. Are there any guidelines to say what right an official—let us say, secretary number one in External Affairs—has to pick up the telephone and call secretary number one in Washington?

Mr. Cadieux: It is a matter of judgment and experience, and I think that the more experienced and senior officer would have more leeway than a junior or less experienced one. It depends on the circumstances. But the whole machine is trying to be conscious all the time of what its various parts are doing. As I have said, I meet once each

week—the first thing on Monday morning—with the senior officers of the Embassy to find out what they consider as being likely to arise, and to decide who shall do what about it. So there grows a knowledge within the mission as to what levels you can operate at given your seniority. Those who do not know learn gradually about that. In some circumstances a very junior officer who does not know any better would find that he does not have access to the very senior people, so at that point he has to come and plead for assistance. It works out reasonably well, and perhaps to legislate on the subject would introduce an element of rigidity that might weaken effectiveness sometimes.

Another factor is that many of the officers at the mission at various levels have to travel to attend seminars or to respond to invitations to speak so that junior officers, or officers who are junior to them and working in the same field, in many cases have to do the best they can while the senior man is away. So a certain amount of internal leeway and flexibility is desirable. A junior officer may call a man who is much more senior and say, "Normally my chief would be in touch with you, but he is away for a few days, and I have an urgent request from Ottawa. Could you fill me in on this?"

Senator Grosart: What is the magnitude of the number of employees of federal government departments of Crown corporations in the United States who are not in any way attached to the embassy?

Mr. Cadieux: We can find that out, I think, from our program submission, but I do not have the figure in my head right now.

Senator Grosart: I suggest, Mr. Chairman, that it would be most useful to the committee to have some kind of summary of this information because in matters concerning atomic energy, defence and conservation there are employees of the Canadian government operating in the United States who have no connection whatever with the Embassy. Possibly we can get that information either through the Ambassador or from External Affairs.

Senator Flynn: It would also be useful to have a comparison with the United Kingdom and France, taking into account all those who are attached to the mission and others.

The Chairman: That would be useful, and I am sure we can get it from the Department rather than bothering the Ambassador about it.

Senator Grosart: My final question, Mr. Chairman, relates to a statement made by the Ambassador on page 13, with respect to the Canada-USA Interparliamentary Group. The chairman of the Senate committee is present, but I think he is rather shy at the moment. There, Mr. Ambassador, you say:

You will also, I am sure, be aware of the Canada-USA Interparliamentary Group. The Embassy is interested but I am not sure what role, what assistance is expected of us. In the past, at least in some quarters, the Embassy was chiefly expected to provide representational assistance.

My first question is: What is representational assistance?

Mr. Cadieux: Well, in terms of having a reception for the Canadian group to meet their US counterparts in Washington.

Senator Grosart: That is on the social side.

Mr. Cadieux: Yes, the social side. But there were some who, I thought, were not sure whether it was appropriate that the Embassy should do that, and so I was a little uncertain as to what members wanted. Then there is the question as to whether we were expected to provide anything in the way of briefing. We would have been prepared to do so if the members had expressed such a wish.

There is also the question of secretarial assistance, drafting the communiqué and discussions in advance with the United States side on the question of developing an agenda. Difficulty is experienced not only on the Canadian side, in my opinion, but on the United States side, because of the separation of powers. They have a preference I think for wishing to do this without the intervention of the Administration. I am, therefore, a little uneasy with respect to the best course we might take. I have sensed a little uncertainty on both sides.

Another example is that one of my duties in Washington is to become acquainted with senators and congressmen. One approach would be for me to attend meetings of these groups, and thereby make contacts with senators and congressmen which might be useful from my point of view. On the other hand, if the idea is for congressmen, parliamentarians and senators on both sides to meet without representatives of the executive in order to achieve a better understanding, my presence would not be in keeping with the spirit of the encounter.

In view of this, as I say, I am at your disposal. If you feel there should be more of this, or less of that, I will do whatever is necessary, but at the moment I am not clear.

Senator Grosart: Going beyond this particular association for the moment, because there are a number of Canadian groups which visit the United States, are you saying, Mr. Ambassador, that you would like such groups to notify the Embassy when they are coming and what assistance they desire?

Mr. Cadieux: Yes.

The Chairman: On that same note I might say that during our recent exchange with the European parliamentary group at Strasbourg and Brussels, our Ambassador in Brussels—in fact we have two ambassadors in Brussels, one to Belgium and one to the Common Market—apart from being most helpful to us, particularly Ambassador Langley, welcomed the opportunity of attending some of our meetings with senior people, such as Soames, because it afforded him an opportunity which he might not have readily had otherwise. This was, therefore, of mutual benefit.

Senator Connolly: Mr. Ambassador, I might say that we are all very gratified that you could attend this morning. This is a very useful exercise.

Over the years there has been a good deal of concern felt in Canada, due to the fact that Canadian affairs are not generally known and appreciated as fully in the United States as they might be. This is particularly true in the light of our many contacts in so many fields, to say nothing of geography. I do not know how long we have maintained an Embassy in Washington, but it is many, many years. This is really apart from the knowledgeability of experts from the top down to the lowest officials who participate but do you find that, generally, Canadian affairs are

understood in the United States, and that there is a sympathetic approach made to them by Americans?

Mr. Cadieux: Generally speaking, everywhere I have gone I have found very great sympathy and affection for Canada. In my opinion, our image in the United States is a national asset. It is positive, and Americans think of Canada as a friendly country, a place of wide spaces and without many of the problems they have encountered.

To respond specifically, however, I must make a distinction. When dealing with officials, businessmen and representatives of the media who deal with Canada, I find they are very well informed about our country. With respect to the general public, however, that is something else. It depends on the areas one visits. Those which are adjacent to Canada, such as the New England and border states, have more knowledge of our country. However, when one visits other areas it is not to be unexpected that those people are a little hazy about us and learn about us only when we make the headlines. This tends to be discontinuous and distorted, and is one reason for my feeling and, in my opinion, that of my colleagues here, that as time goes on and we assert our personality and diverge from the United States there will be a very great need to conserve that favourable image by explaining our actions and timing them in such a way that the Americans will adjust.

As far as I know they are well disposed and, in my opinion, if we explain our policies we will achieve the understanding that has enabled us to maintain these friendly relationships over the years.

The need is there, which is the reason for my modestly, but as much as I can—travelling and making speeches. I also encourage the consulates to do this. I welcome efforts by Canadians to visit the United States and speak. I am encouraging this notion of examining what we can do at university levels. This is looking at the future, and the future of those who will be teaching tomorrow.

I also wonder whether our Canadian Clubs could not be augmented in numbers to provide education in some manner. I have in mind, for instance, the English-speaking Union, or the *l'Alliance française*. If a distinguished Canadian were to visit, let us say Dallas, we would already have lists of individuals and groups already interested in Canada.

In my opinion this should be given careful consideration, and I would be happy if someone with experience in these matters would spend a few months taking a good look and reporting to the government that we need this, or should try that. This is not a function which can be performed only by officials. In my opinion much more people-to-people contact would be of importance.

Senator Grosart: How many Canadian Clubs exist in the United States?

Mr. Cadieux: As far as I know, there may be five or six now. There are clubs in New York, Boston, Chicago, San Francisco and Washington.

Therefore, the question I ask myself is: Should consulates and Canadian Clubs in various centres be more alike or less alike, and should there be more variety? What do they do? Some believe it better not to interfere, but to allow these developments to take place spontaneously. Perhaps that is wisdom; I just do not know enough about it.

However, my theory is that a need exists for us to broadcast our message more effectively than has been the case in the past, and perhaps there would be a role for, generally, such an agency.

Senator Grosart: There should be one in Florida.

Senator Connolly: It is a priority and continuing concern, I presume, to the Embassy?

Mr. Cadieux: Yes.

Senator Connolly: You mentioned two or three colleges or universities in your position paper, but made no mention of the School of Canadian Affairs at Harvard. I believe there still is a rather eminent one in Rochester—or Syracuse. Are there very many others?

Senator Grosart: Cornell.

Mr. Cadieux: Such a list could be established. However, in my opinion it is not enough. My point really is that we should look carefully into this, following which strategy decisions must be made. One question is: Should we reinforce existing programs or attempt to stimulate new ones in the same manner as the Germans and Japanese leave done.

It is an expensive field and it requires millions of dollars to establish a chair. However, what seems to be working for the Germans and Japanese would work better for us, because we are better known, I presume, than perhaps the Germans and Japanese in the United States.

My suggestion—and I believe the department is working along this line—is that we should have an expert take a look at this situation. He could then tell us, presuming we desire cultural relations, the choices available, the price tags and, depending on what we do, how we should go about it. In my opinion, with 2,500—which figure I obtained from Professor Boorstin's book on the United States—institutions of learning, colleges, universities and specialized schools, there exists a group of eight million who will be leaders of tomorrow. This is something that we should look at very carefully, if we say we want to develop our image in the United States.

Senator Connolly: Some of them have been going for some time. Is the embassy able to point to any practical beneficial results on the establishment of these chairs or departments in various universities and colleges?

Mr. Cadieux: It depends on what you mean by "practical." Generally speaking, as one of the chief benefits of this, I would be looking to some understanding and knowledge of Canada. Anywhere you have these books, interested professors who bring people from Canada and send people to Canada, they contribute articles giving an opinion on what it is we are trying to do. I find that, frankly, very worthwhile and rewarding.

On top of that, I would assume that some of those centres are bound to generate travel between Canada and the United States and, perhaps on the commercial side, help create a general impression that Canada is friendly and is associated with quality products which should have a place on the American market. This supplements our general trade efforts and has a direct political impact on the image that the United States has of Canada as an ally, as a trading partner. It is hard to quantify, to put a price tag on those.

Senator Connolly: What you have been saying is usually said when it is proposed, as was the case with Harvard a few years back, that this would be a good thing. I wondered whether, in the light of experience over a good many years, there is now evidence of some of that good thing being shown, being established—something which people appreciate as being a good thing.

Mr. Cadieux: I wish I could amplify that for you, but I think it is difficult. Perhaps one practical indication is that in areas where there have been academic interest in Canada I find that relations between our consulates and people in the academic world or in the media seem to develop more effectively and more quickly than in areas where you do not have that. I receive more invitations to attend inauguration ceremonies, participate in seminars and give lectures in such areas than in other places. When I go to these other places, it is a sort of fresh effort. I call on editors, I see television commentators, and people like that. In the academic world we do not seem to have ramifications. When you go to places where there has been a long established institution, it is like coming home. You know lots of people. They know you. There is an interest. I think it works over a period of time but does create an awareness of Canada that is communitywide, which you do not get when you do not have these studies. That is why, shortly after I came to the United States—I was not a specialist in that area—I strongly supported George Cawley who did a lot of pioneering work there. Lately we have had Mr. Seaborn, who is a prodigy of energy and who seems to be meeting academic institutions all over the United States. He is going after this in a vigorous and systematic way. I think this is promising, and possibly significant for us.

The Chairman: Honourable senators, I notice it is approaching noon. In addition to Senator Connolly, I have Senators Asselin and Macnaughton on my list for the first round. If it is convenient, Mr. Cadieux, shall we continue until 12.30?

Mr. Cadieux: Yes, Mr. Chairman.

Senator Connolly: Most of the discussion this morning has dealt with facilitating contacts within the public sector between the federal government here and in the United States, and also facilitating the work of provincial leaders and officials.

A lot of the activity in the trade field, between Canada and the United States, originates and is developed in the private sector. The private sector is recognized officially in the United States as being a very important part of their economy, and likewise here. What is the extent of the assistance that can be given and is given by the Embassy to people from the private sector here whose business activities might impinge upon the activities of federal and state bodies in the United States?

Mr. Cadieux: There are two factors that I believe are relevant to the answer. One is that Washington itself is not essentially a business or trading centre. It is a government town. Most of the trade promotion and assistance that can be given to businessmen and people operating in that field must in the nature of things come from our officers who are in the centres where industry is located, which are chiefly New York, Chicago and San Francisco, where we have very senior officials in charge of those offices and who are doing their best to promote Canadian business and assist businessmen.

If and when businessmen come to Washington, we do what we can to assist them. But, frankly, I do not find that they come to Washington as often as they go to New York, Chicago, and other places. That is because the Embassy is essentially related to policy-making. Our connections in Washington are principally with those who make policy there.

Naturally, some of the large trading interests are represented in Washington by lobbyists, and some have offices there. We keep in touch with them, but in terms of our main effort, this cannot be our primary consideration and role. In some cases, when a group of businessmen comes from Toronto under the auspices of the Canadian Institute of International Affairs for instance we do all we can for them. This involves relating to such representatives of business who operate in Washington and who are concerned with Canada. But these things have not happened very often in my experience in Washington. The primary role of the Embassy there seems to be to liaise in the political area, even in matters that affect commercial and trading interests, and to rely on the consulates for direct trade promotion.

In the course of my travels in the United States I have tried to assist consulates in developing public relations and their other activities—including those that are a little beyond immediate sales promotion. It is our hope that what the consulates and I have been able to do on those occasions has been found helpful in terms of trade relations and trade interests.

Senator Connolly: I was thinking particularly, for example, of business organizations in Canada that might have problems, say, with the Federal Power Commission, or with establishing pipe lines. I recall, a few years ago, the question of war claims arising with the United States, which was a matter of some concern to Canadian citizens.

Mr. Cadieux: If it is a matter relating to official agencies, I can only move if I am instructed to do so by the government. There are some facilities for businessmen. Their first pitch is to Canadian authorities. If they go there and relate at a different level with similar private interests, then we would do what we can to facilitate that. However, our prime role is as an official link between the two governments.

[Translation]

Senator Asselin: Thank you, Mr. Chairman,—I will be very brief. First of all, I want to congratulate Mr. Cadieux on the manner in which he fulfills his duties in Washington, as Canadian ambassador. We are very happy to see him there, where he does a fantastic job.

I think that for some years now our foreign policy seems to have come to a certain maturity. We have tried to establish, particularly with regard to the United States, that we are totally independent; and on the international scene, our country assumes more and more responsibilities. I think that this is a marked difference with what I have seen in 1960 and 1961 at the United Nations, where I was accompanied by the ambassador. It was then very difficult for us to take a position different from that of the United States on some crucial international questions.

You just said, Mr. Ambassador, that our image was good in the United States. Is our image good among legislators, senators or congressmen,—the members of the House of Representatives? It seems to me that since we have major

problems with the United States in relation with energy or also beef, as was exposed to us by Senator Carter and other problems also which exist between the two countries, I think that the climate of co-operation and understanding which exists between the Executive Branches of the U.S. and Canada is merely a surface climate, and when you hear Senators threatening us—as was the case following the visit of the Prime Minister to Washington—or consider retaliation measures because the Prime Minister has explained our situation concerning oil and energy, I would like to know your opinion—and this is also a feeling I have—on whether the American press is trying or not, with regard to our problems, to build up an aggressiveness campaign against Canada, particularly within the American people, the American population? I had the opportunity to meet American businessmen recently, and I think they do not understand our problems, our differences of opinion on basic issues, such as those I have exposed earlier. Am I mistaken when I ask you if the American press seems to try to build up an aggressiveness feeling within the American people with regard to our relations with the States concerning the discussions of our problems? This is the only question I am directing to you.

Mr. Cadieux: This question is important and difficult because when you try to generalize with regard to the attitude of a country, you necessarily are subjective sometimes; moreover, I must confess to you that I probably am prejudiced. I have a responsibility, which is to build up the best possible relations with the United States and the American public. Accordingly, it is hard for me to tell you that everything does not go as well as it should. But there is certainly something new in this respect. I think our rating is good. But what is new is that as you said, Canada is reaching a level of greater maturity, we are defining ourselves more clearly, and sometimes in a different way from the Americans. The new factor is that Canada in the cultural, economical, as well as political fields takes more and more stands which not only differ from those of the United States but also in certain cases have a direct impact of what is going on in the U.S. For instance, if Canada says, "You will receive half of the oil or energy we supplied to you last year", this is a decision which has a considerable impact. If Canada says, "In the future you will invest in Canada only if you accept this or that condition"—since Canada is the country of the world where the Americans have made their largest investments this is an extremely important issue for them. Thus you must consider that Canada now has a considerable impact on the United States owing to new stands on a number of issues.

This being said, I think there are two major factors we must keep in mind; they are simple but sometimes we forget them. I think that the essential difference between the American system and ours is that the latter seems to be more volatile; elections are held more often and congressmen are elected every two years. Also, there is a separation of powers so that decisions are made after passionate and continued debates. Therefore, you get the impression that there is more discussion than under a system like Canada's. Senators and congressmen must continually answer their constituents' claims and desires in terms which seem to us more demanding than here in Canada. That is their political style and we must accept it. But it does not mean that when a senator or a congressman criticizes Canada, he necessarily represents his party's position, the government's position or the country's position. He only takes part in a discussion and makes a point. So we must consid-

er these views, which may sometimes seem tough for Canada, as being tactical positions within the framework of a broad dialectical operation. The matter must be kept in perspective, which does not mean that it ought to be disregarded, because some type of action or response may be extremely important and can create currents of opinion which may expand and eventually have an influence on the administration's policies towards Canada. But, I think we must understand the working of the system. Moreover, in the United States, the media are extremely influential. They are well organized and, seem from the outside, we have the impression that they are very nervous, like the political process. Besides there are controversies, uproars, and continuous and passionate debates. But once again, we must not always think that the catastrophe announced in an editorial or in the headlines of a newspaper will happen to everybody the very next day. It has often been noted that the media emphasize or give a dramatic turn to an incident to make a point.

So, I think we must consider these reaction within the context of the working of the great American Republic, which consists of a continuous passionate and sometimes violent debate to try and find the truth. So, obviously, in the midst of this, things will be said about us by persons or by newspapers...

Senator Flynn: Even by the President.

Mr. Cadieux: Perhaps they will not always and necessarily correspond to the considered and final opinion of the government and of the country. I think we must understand that. But, this being said, I believe that if we want to continue to assert ourselves, we must understand that if we affect American interests, there will be reactions and, in some instances, it is possible that there will be a price to pay in terms of credibility and friendship. From their point of view, if our positions seem too divergent, too negative, too unpleasant, decisions will then have to be made in Canada.

What I want to say is that it is possible that all we do in Canada will not necessarily be a real blessing for the United States. And if some day we affect their interests, we will have to accept that they tell us that this does not help them. We will have to take a decision if we want to pursue certain policies or, on the contrary, if we want to keep our willingness intact. These are decisions that the country as a whole, the Parliament, the government, will have to make.

But I believe that there are many things that we can do to lessen the effects of some of our decisions so that they may be better understood. We, Canadians, insofar as we exercise our responsibilities, need to take notice of our public image in the United States and interpret american indications and reactions for the same reason that we want them to understand us better. I think that if we want to retain their friendship, while being different from them, we need to understand their reactions.

Senator Asselin: Je vous remercie, monsieur Cadieux, thank you.

[English]

Senator Macnaughton: Your Excellency, like all the other senators here this morning, I want to thank you for your excellent presentation.

My first question I think you have just about answered. It was that there seemed to be several new factors, such as

Senator Jackson spouting off, the 17 senators who called on President Ford to protest about certain Canadian actions, and that this sort of thing is cropping up all the time. If I get your message, it is that as of the moment we should keep our cool.

Mr. Cadieux: We should be alert and we should be alive to what is happening there.

Senator Macnaughton: But there may be much more of this in the future, as various other questions arise.

Mr. Cadieux: There may be much more, but this is the beginning of a process which we can influence by what we do and by our reading of the situation there. Certainly, when a group of senators go to the Administration and say, "We have a problem," we have to take that seriously. But, on the other hand, I do not think we should necessarily panic and say, "Well, we have done a bad thing and we must change." If we are convinced that our national interest requires us to do something, then I do not think we should be shy or apologetic about it. These are the facts of life, and I am convinced that our American friends are big enough and staunch enough to appreciate that; for our part we have then to calculate what this process is going to produce in the U.S.A. If we like it, then we live with it. If we do not like it, we may have to adjust our decisions as a consequence.

We are not always going to be free in terms of the impact that we can have, in the U.S.A. but if we make the effort to explain our position, I think that the relations between the two countries are such that there is a great deal we can do. If we do this in good faith to serve legitimate Canadian interests, our American friends are adult enough to adjust to it.

Senator Macnaughton: Mr. Chairman, I would like to trot out one old chestnut, because we have a very valuable witness: Watergate. Have you anything further to add to the general media reports which all of us have heard or seen?

Mr. Cadieux: I prefer not to comment on that. This has been such a traumatic experience in the United States, where opinions are very divided and where the consequences are still unfolding, that I can only note with you that this has been a significant event and that it has had tremendous impact in the United States. As an observer there, having been in contact with many of the people who have been involved in this tragedy, I find it most difficult, as Ambassador, particularly, to comment on that.

Senator Macnaughton: Thank you, sir.

The Chairman: Mr. Ambassador, I wonder if I might develop Senator Macnaughton's first question slightly, referring to the 17 senators. I believe that reference is to the number who signed the letter complaining about our oil export tax, primarily, and advocating that they should put a special pipeline tax on oil coming from Portland, Maine, to Canada.

Mr. Cadieux: Yes.

The Chairman: I was concerned with that myself, because of the fact that a man of Senator Humphrey's stature joined with the others, many of whose names I did not recognize so readily. Would you or the Embassy, on an occasion like that, take steps to put the Canadian argument and position forward to those specific men by communication of one sort or another?

Mr. Cadieux: That we do. Mr. Chappell, our energy expert, for instance, goes to talk to senators all the time. The day before I came here I had breakfast myself with Senator Mondale, who is coming here next month. This is something we do all the time. But it is related to what I said before.

An ambassador must not ever forget that he is accredited to the Administration, which is the normal link with other countries; and in no way can he start negotiating with the legislative branch in some circumstances the opposition.

Where it gets to be very tricky—and I am talking frankly here—is that some of these legislators are involved in an election process. They may not say it, but that is a factor. What we are talking about now is capturing the White House. So an ambassador must bear in mind all the time that, if he appears to be relating to the opponents of the incumbent of the White House, negotiating with them, getting involved with schemes that cut across his policies, he will be instantly in trouble. This must be clearly understood. An ambassador can deal with senators on a purely factual basis. If they come to him and ask, "What is your policy on this thing?" he and his assistants will readily give them any kind of information they can on that, with all the difficulties that are involved. It is not always easy to interpret a country from the outside. When they ask you, "What are you going to do about policy in this or that area? What is the problem with the provinces?" Well, I do not know of an easy answer to that one. When they ask, "When are you going to give us directions?" I keep telling them, sometimes "Like other countries, we don't have instant answers to all these complicated issues that arise from day to day." But, basically, ambassadors must always have regard to the political process in the United States, whereby legislators—and nothing is more legitimate—may aspire to reach the White House. They have to develop policies or proposals that may be very controversial in the United States or in Canada. Well, ambassadors cannot cut across those either and get into controversies with members of the Legislative branch. As you can see, this is a very sensitive area.

A senator or a Congressman may come to an ambassador and ask him to agree, saying, "Don't you think that our government has not done enough?" An ambassador cannot be in the position of agreeing to any such thing. Or, "Would it not be a good idea if we were to do this or that?" Well, again, ambassadors are not mandated to negotiate that way. Their link, normally, would be government.

So there are limits to what an Embassy can do here. Essentially, I think that providing information, explaining what you have done, is the easy part. Beyond that you have to analyze the whole situation and try to make judgments as to how far you go in pressing or developing your case or responding to initiatives. And this is very delicate.

The Chairman: Thank you, Mr. Ambassador. On behalf of all the senators here, including the members of the committee, may I again thank you for troubling to come here, for your comprehensive opening remarks and for the frankness of your answers to the questions asked.

I am sure that this morning's meeting will be of great assistance to us in trying to bring forward a helpful report on the study we have under way.

Mr. Cadieux: Thank you very much.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 5

TUESDAY, FEBRUARY 4, 1975



Fourth Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate

Minutes of Proceedings

Tuesday, February 4, 1975.

(8)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3:15 p.m. this day.

Present: Honourable Senators Belisle, Carter, Connolly (Ottawa West), Deschatelets, Grosart, Lafond, Macnaughton, McNamara, Rowe, van Roggen and Yuzyk. (11)

In attendance: Mr. Goodwin Cooke, First Secretary, United States Embassy in Ottawa; Mr. Peter Dobell, Director, Parliamentary Center for Foreign Trade and Foreign Affairs; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Mr. Rufus Smith, Washington, D.C., former Deputy Assistant Secretary in charge of Canadian Affairs, U.S. Department of State.

At 5:35 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, February 4, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 3:30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (Chairman) in the Chair.

The Chairman: Honourable senators, before introducing our witness today, I should like to announce two items. Firstly, we had made arrangements with Dr. Cohen, the Canadian Chairman of the International Joint Commission, to appear before us on Thursday of this week. Unfortunately, Dr. Cohen will not be able to appear before our committee at that time. His appearance has been postponed to February 18. For that reason, there will be no meeting of the committee on Thursday of this week.

The second thing I wish to announce is that the meeting scheduled for February 20 has now been confirmed. I am pleased to announce that Premier Hatfield of New Brunswick has consented to join with former Governor Curtis of Maine for a joint appearance before our committee on provincial-state relations, which I know is of interest to many honourable senators. That should be an interesting meeting.

Honourable senators, it gives me great pleasure to introduce to you today Mr. Rufus Smith, former Deputy Assistant Secretary in charge of Canadian Affairs, U.S. Department of State. Mr. Smith is regarded by many in Ottawa as the American who knows most about our relations with the United States. During his distinguished career with the U.S. Department of State, he became the leading specialist on Canadian affairs.

He first came to Canada in 1958 to attend the National Defence College in Kingston. From there he moved on to Ottawa as Political Counsellor with the American Embassy for the period 1959 to 1964. Following a brief stint in Panama, from 1964 to 1966, he again continued to deal with Canadian questions until his resignation in October, 1974.

In 1972 the Bureau of Canadian Affairs was created in the State Department and Mr. Smith was named Deputy Assistant Secretary to head that bureau.

I understand from a newspaper clipping I read some weeks ago, Mr. Smith, that you were the only Deputy Assistant Secretary with only one country with which to cope.

Mr. Rufus Smith, Former Deputy Assistant Secretary in Charge of Canadian Affairs, U.S. Department of State: That is correct, Mr. Chairman.

The Chairman: There was a story about Mr. Smith going around in 1972 on the occasion of his returning to Washington after completing his assignment in Ottawa at the U.S. Embassy. On the day of his departure someone at

the American Embassy noticed that the flag on the East Block was flying at half-mast. I am told that, not aware that anyone had died, an enquiry was made of our External Affairs Department and, likewise, they did not know why the flag was at half-mast and said that it must be because Mr. Smith was leaving Canada!

The meeting today, unlike some previous meetings, will not be *in camera*. If I may, I will now ask Mr. Smith to commence with an opening statement, following which Senator Connolly has kindly consented to lead off the questioning.

Mr. Smith: Thank you, Mr. Chairman.

Honourable senators, it is a very great personal pleasure for me to be back in Ottawa, brief though the visit will have to be, to see some old friends and to share with you some thoughts about the relationship between our two countries. I do not have a prepared statement, but I do have some notes from which I should like to talk in making some fairly general observations, following which I will be happy to go into any particular aspects which honourable senators may wish.

Let me begin, if I may, with a general comment, an evaluation, if you will, of the state of the relationship. This is a difficult thing and one which is a matter of judgment. You may have heard the story of the two old friends who met on the street, not having seen each other for some time, and one of them, Joe, said to the other one, Tom, "Tom, how are you? How is the wife?" The other fellow thought a moment and said, "Compared to what?" That, I think, is what we have to keep in mind when asking ourselves what the state of the relationship is. I submit that it is good. I recognize that that is a value judgment, and you have to ask yourselves: Compared to what?

Perhaps the relationship is not as easy or as smooth as it was, let us say, in the immediate post World War II era when we were both involved in constructing "the brave new world" in the U.N. and NATO. At that time our aims and purposes seemed clear and compatible. Perhaps it is not as good now as it was then, but compared to August 15, 1971, I would say it is pretty good; and compared to January, 1963, I would say it is pretty good. What about 1911, or 1867, or 1814, for that matter? On the whole, I think the relationship is a sound one and one which is beneficial to both countries.

In support of that assertion, there are a number of things I would adduce. Trade between the two countries last year was more than \$40 billion in total. That is greater than the trade between any other two countries in the world and, of course, was greater than trade between our two countries up to that point. Another area is tourism, where we have more than 35 million visitors crossing that border in each direction in one year. We have investment flow going in both directions; immigration flow in both directions.

What I am saying is that there is, it seems to me, an extensive, beneficial interchange across that very porous and very long border every day of the year. It is an interchange that takes place between our two societies largely beyond the control of governments and, on the whole, I think that is the way both societies probably want it.

There is another aspect to the relationship I would point to, and that is that our respective purposes in the world, it seems to me, are compatible with each other. The Canadian and American peoples and, correspondingly, their governments, have at least a generally common assessment of what the world is all about. We see the continuing need for collective security, although neither one of us has the same view of it that we did 10 or 15 years ago. We both recognize that we face a common energy problem in the world and that neither one of us can solve it alone. We both recognize that there is a severe shortage of food problem facing the world; we recognize that we are both fortunate in that regard, but that we will be called upon to make contributions towards a solution to that problem.

What I am really saying, honourable senators, is that I do not see any clash of our national interests. A further area I should like to comment on in this regard, although I suppose it is a relatively minor one on this scale of things, has to do with the standard Canadian complaint that while Canadians know a great deal about the United States, by and large Americans are generally ignorant of Canada. In the last 10 years there has been a virtual explosion of interest in Canada and in Canadian-U.S. relationships in U.S. academic institutions. There is an Association of Canadian Studies in the United States which publishes its own scholarly journal; there are graduate degrees being given in Canadian studies in a great variety of American academic institutions, and I would submit that that is a healthful development for both countries.

Having said all that, I think we have to recognize that there have been significant changes in public attitudes in both countries over the past decade. In the United States, as you know, we have been through the traumatic experience of Vietnam, which resulted in a general disillusionment on the part of the American people as to the U.S. role in the world. There is concern over our balance of payments situation and our competitiveness in the world economy. There has been a growing concern over many domestic problems such as urban blight, the gap between the haves and the have-nots, unemployment, drugs, crime, and the whole array of domestic problems. Of course, we have just gone through the experience of Watergate. Well, the consequence of this is that in the United States there is today, as there was not perhaps ten years ago, a degree of looking inward at our own affairs, a concern with our own problems, perhaps an impatience with friends and allies—in short, a narrower definition of our national interests.

It seems to me that a somewhat parallel development has taken place in Canada over roughly that same period: your own concern over inflation and unemployment; the shock of the FLQ crisis of October, 1970; perhaps a disillusionment with American leadership in world affairs, particularly, of course, regarding our involvement in Vietnam; Canadian reaction to U.S. moves of August 15, 1971. Yet, at the same time, I suppose there has been a growing maturity in Canada; certainly, in an economic sense, a growing or at least a more articulate Canadian nationalism, at least in southern Ontario; a nationalism that I would suggest is,

occasionally at least, so shrill as to make its expression almost indistinguishable from plain anti-Americanism.

It seems to me that there has been in Canada a growing concern over the quality of life; a concern over the degree of American ownership of the economy; a concern over the need to husband Canada's huge but finite natural resources—or perhaps only a growing Canadian determination to exploit the development of those resources in a fashion most beneficial to Canadians. Also for Canadians, I suppose, there has been the vicarious catharsis of having been a rapt, if uncomfortable, ringside spectator of the whole Watergate phenomenon.

Thus, in Canada, as in the United States, it seems to me, there has been a clear move toward a narrower definition of the national interests.

As I look back over this period from 1970, it seems to me that the record of the two governments in handling the relationship through this period is not a particularly shining model. For example, I do not point with particular pride to the abrupt American action on August 15, 1971. You will remember when the United States imposed surcharges on imports into the U.S. But there was also, at least initially at that time, it seems to me, an over reaction on the part of Canada. There was a readiness on the part of some in the United States at that time to see Canada, if not the villain of the piece, as at least a major cause of U.S. balance-of-payments problems. In turn, there was in Canada a resentment of what was seen as this superficial American analysis of the problem. There was also, in my judgment, a Canadian failure to understand the strength of feeling behind the American viewpoint, and there was no real effort on either side to seek accommodation. We both pleaded economic stringencies and political strait-jackets and we lectured each other, but we made no real effort to find a common ground.

More recently, we have seen the reactions in both countries to the Arab oil cutback and the price increases in the fall of 1973. On the whole, I think both governments and the political leaders of both governments in this situation acted more responsibly than they spoke. By that I mean that there was some unnecessarily acrimonious public exchange.

Let me add another element to the relationship, an element that is new. We have seen a growth of public consciousness in both countries of problems of pollution, and you know as well as I the specific problems that are still there before us: the Skagit Valley, the west coast tanker problem, the Great Lakes pollution problem, the refinery at Eastport, Maine, and so on. On the whole, the record of the two governments to co-operate in dealing with these problems has been good, but at times, I submit, there has been an unseemly tendency on both sides of the border to score a cheap public shot with a quick and easy comment.

As to the future, obviously there are problems ahead. I think we will find them, for example, in the fields of investment and agriculture. Heaven knows, we always seem to have problems cropping up in agriculture. I think efforts by Canadians to maximize the benefits of being possessors of valuable natural resources could well lead to some bilateral problems. For example, efforts by Canadians to upgrade the degree of processing of Canadian resources could lead to problems. I do not say this in criticism. I do not say that Canadians should not do this. What I am trying to say is that it may nevertheless lead to problems which the two countries will have to deal with. Your regional development program can on occasion lead

to problems between the two countries, as we have seen in the case of the Michelin tire plant, with which I am sure you are familiar.

What I am getting at is that there is a danger here that Americans will begin to think that Canadian development is being undertaken and furthered at American expense. And if so, if they become convinced of that, there can well be a reaction.

There is a danger, of course, on the U.S. side. There is always the danger that the U.S. will take unilateral action that can harm Canadian interests. There is the danger of the U.S. unwittingly failing to take account of Canadian interests.

My prescription for all this is consultation. I almost said "quiet diplomacy," but I am aware that at least in some circles in Canada that kind of diplomacy does not commend itself. But, after all, as one of your witnesses stated on another occasion, "What other kind of diplomacy is there?"

What I am suggesting is an increased need for reasoned and frequent dialogue so that we do not take each other by surprise, so that we do not shoot from the hip. The style with which we do things has a lot of bearing on the relationship between the two countries. Marshall McLuhan I suppose said it better, when he said, "Sometimes the medium becomes the message."

Now, as to some mechanisms, we already have a number with which you are familiar, for example, the International Joint Commission and the Permanent Joint Board on Defence, to name two of the oldest, and I would suggest the most useful and honourable. But there is a danger that the two governments may overload these mechanisms and may expect them to carry more of a load than they are really designed to bear.

There is, of course, the Canada United States Interparliamentary Group. Maybe this needs to be revived or rejuvenated. Maybe it needs to be made less ceremonial, to have the meeting periods shorter, less social, with a greater focussing on subject matter. Remember that the U.S. Congress itself is asserting in our society a new role for itself, and doing so with great vigour. And there are new and younger elements in the Congress which are, themselves, asserting the right to a greater voice in the affairs of the Congress. It seems to me that it will be useful for members of both houses of the Canadian Parliament to become quickly acquainted and directly knowledgeable about these new, changed circumstances and forces in political life in the United States.

You have had some discussion, I know, with previous witnesses about the Joint Cabinet Committee on Trade and Economic Affairs. I find it difficult to come down with a firm recommendation in my own mind on this point. I find it a somewhat cumbersome instrument. Time is always a problem when you are trying to get five ministers from each government to get three days when they can all meet together. There is always a problem—and there may always be—of clashing personalities. I am just not sure that now is a propitious time to seek to revive that.

One specific suggestion that has been put forward from time to time is that there be some kind of joint secretariat at the sub-cabinet level—at the deputy-minister or under-secretary level. I think the idea has some merit, the idea of some sort of joint mechanism, not for joint planning or joint decisions, but simply for keeping each other alert to the plans and trends in either country.

I would make one other suggestion: We have some problems facing the two countries today that are becoming urgent and are going to be most difficult to cope with. I am thinking specifically of the delineation of the boundaries between the two countries, that is to say, off the coast of New Brunswick and Maine and, of course, on the west coast as well. There are two other places as well where Alaska joins Canada. The urgency arises because of the interests that both countries have in the resources of the Continental Shelf as well as the problems of fishing and exploration. This arises particularly with regard to the east coast which poses the major problem. So far as I am aware, each country has taken a rigid position and I do not see much give here, nor do I see much room for negotiation. I would suggest that perhaps the time has come, where problems of this sort are concerned, for the two countries to agree to resort to arbitration. Canadian friends have told me that when I make that suggestion I fail to understand Canadian political reality and Canadian psychology arising from the history of arbitration in the 19th and in the early 20th century. I find it difficult to accept; it seems to me that it is a sensible and civilized way to solve a problem which can be very difficult politically for both countries.

Now, as to the outlook for the future, I see complexity and I see many problems, but that does not dismay me. I also see a general identity of purpose for the two countries in the years ahead.

Furthermore, as I look ahead, I can even see the day when an American Congress man in the heat of debate on the floor of the House of Representatives might unknowingly paraphrase Bob Thompson of Red Deer, Alberta and say; "Mr. Speaker, let us never forget. The Canadians are our best friends, whether we like it or not."

The Chairman: Mr. Smith, in the same article that I referred to a few minutes ago the reporter had a paragraph quoting you. He said:

"Sometimes," said Smith over an omelet and red wine at a foggy bottom restaurant this week, "I get a call from upstairs or the White House asking what the hell I think I'm doing suggesting such-and-such a response, but not often. Everything is pretty carefully prepared beforehand."

I think, by the breadth of the subjects you have covered in a fairly short introductory speech, it is indicated that that same careful preparation went into the great number of areas that we can now pursue as a result of your opening remarks. Thank you.

Before calling on Senator Connolly, am I correct, Senator Grosart, that you and Senator Macnaughton have to leave at 4.30 for another meeting?

Senator Grosart: That is right.

The Chairman: Under those circumstances, Senator Connolly, if either Senator Grosart or Senator Macnaughton had a particular line of questioning that they would like to pursue, would you be agreeable to allowing them to occupy this time before they have to leave?

Senator Connolly: Certainly.

Senator Grosart: That is very kind of Senator Connolly, because it so happens that we have to attend a meeting of the Executive of the Canadian Section of the Canada-United States Interparliamentary Group on which a comment, and a very interesting comment, was made.

The Chairman: Then, since you are agreeable, Senator Connolly, I shall ask Senator Macnaughton and Senator Grosart to start the questioning and then we will come to your questioning immediately afterwards. In that way they will be able to get away.

Senator Grosart: I shall keep my questioning short, in the circumstances, Mr. Chairman. At the outset, however, I would ask, not of the witness but of you, that we obtain a list of the universities in the United States that have chairs or courses in Canadian studies, and also a bibliographical list of the studies that have been made. It would be very useful for us to have these in the archives of the committee.

I wonder if the witness could give us a brief rundown, from memory, of the universities seriously engaged in these studies.

Mr. Smith: I cannot name them all off the top of my head, of course, senator, but some are at the graduate level and some are undergraduate. There is even a move now in the secondary schools. I suppose the best known is the Johns Hopkins School of Advanced International Studies in Washington, D.C. that Dale Thompson set up some time ago under a Donner Foundation grant. The University of Vermont has long had a good program at the undergraduate level.

Senator Connolly: If I may interrupt for a moment here, could I ask if the Johns Hopkins program is restricted to Canada-U.S. relationships?

Mr. Smith: It is a study of Canada in fact rather than of the relationship between the two countries—the economy, the history, the geography and so on. Michigan State University at East Lansing has a good program and there is a chair of Canadian studies—although I think it is empty at the moment—at Harvard. Yale has a program of this kind and the University of Chicago does. Duke University has a very good program of Canadian studies. Some of these are headed by Canadians and some by Americans who have studied in Canada. I could try to be helpful, Mr. Chairman, if you would like a list of the membership of this association.

Senator Connolly: Rochester has one?

Mr. Smith: They had one.

Senator Connolly: Mason Wade used to be there.

Mr. Smith: Yes, he did.

Senator Connolly: What about Cornell?

Mr. Smith: Cornell has one.

Senator Connolly: And I think Minnesota may have one.

Mr. Smith: It may have.

Senator Bélisle: Speaking of the number of students, do we know if there are more Canadians studying in the United States than there are Americans studying in Canada?

Mr. Smith: I am sorry, I do not know. I know there is a great number in each direction. By that I mean in universities generally and not of necessity in this program of Canadian studies. What the comparative figures would be I do not know.

Senator Grosart: My second question is as to whether we could have a little more information on the history of the Canada-U.S. Joint Cabinet meetings? When was the last one held and how many have there been? Do they keep minutes, do they issue statements, and so on? What has happened to it? It seems to have died a natural death.

Mr. Smith: Well, here I am speaking from memory, so I would ask you not to hold me to the figures, but there were two that were set up in the mid or late fifties. The Joint Cabinet Committee on Trade and Economic Affairs with the joint chairman on our side the foreign minister. Then there were the Secretaries of the Treasury, Agriculture, the Interior, and probably somebody from the Federal Reserve Bank. On the Canadian side there were the Secretary of State for External Affairs, the Finance Minister, the Governor of the Bank of Canada, the Ministers for Agriculture and Trade and Commerce.

There was also a Joint Cabinet Committee on defence set up about the same time. This was not done by treaty, but there was a formal exchange of diplomatic notes, and I think it was the intent that they would meet once a year on the average. My recollection is that the one on defence met about three times and then fell into a dormant state. I am not entirely clear as to why, except that there were some serious differences between the two governments on defence matters that I think it was felt that neither government wanted to force into that kind of meeting and which it was thought they could handle better otherwise. That committee has not met for ten years, and I do not see any disposition on the part of either government to revive it at this time. There are no burning issues in the field of defence between the two governments that would seem to require it. The other one last met in November, 1970, if my memory serves me correctly, here in Ottawa. A number of things happened after that—elections or impending elections in both countries which made it awkward for ministers to get together; and the events of August 15, 1971. It has simply fallen into disuse. However there are people on both sides of the border who would argue that it is high time to revive them.

As I say, I am somewhat skeptical of this, not that I am against the contact, but if you establish it and publicly announce that a meeting of this kind is going to be held, then the tendency is that public expectations are built up either in the sense that this would be a grand resolution of all our problems or that this will be a dramatic conflict of interest and so I just question how useful this would be at the present time. As far as I am aware there were no formal minutes that were kept of these meetings although I am sure that each government kept its own internal summary.

There was usually a joint press communiqué issued and a press conference held at the end of it. My newspaper friends have told me that the communiqués were always very dull and bland and never really said anything, which is probably true, although that does not necessarily mean that a lot was not accomplished.

It was not only the meeting of the committee but, of course, opposite numbers came to know each other personally, had lunch together, telephoned each other later and made other such types of contact. However, I say again it is a cumbersome instrument to bring together.

Senator Grosart: Would you say that this has been partially replaced by a substantial increase in the number

of individual meetings between Canadian cabinet ministers and their opposite numbers, whoever they may be?

Mr. Smith: I think there is a good deal to that, not only in visits back and forth between the two capitals, but when they meet in other capitals around the world in connection with other international meetings there is usually a bilateral session that takes place there also. I think that is probably right.

Senator Grosart: You mentioned, sir, the possibility of resorting to formal arbitration?

Mr. Smith: Yes.

Senator Grosart: You mentioned the Canadian hangup on this which is, of course, obvious. We sometimes say that all the memorials on our side of the border are of times when the Americans invaded us and we won, and on their side there are many great monuments to arbitrations which were lost. We lost all of them and never came close to winning one in those days. There were people such as the Kaiser and all sorts of English lords and so on who conducted these arbitrations, very often with the U.K.-U.S. relationship in mind for more than the Canada-U.S. relationship. How would you see arbitration structured today? It would be interesting to have a description of a kind of arbitration board, its terms of reference and the nature of the commitments which would be made by each side in respect to the conclusions and so on?

Mr. Smith: I am not sure that what I mean to suggest is an arbitration board that would be in continuous existence for any problem to be referred to it. Perhaps a better notion would be that there ought to be one for each specific problem, otherwise there might be a tendency on the part of the arbiters to say: "Well, we came down on the Canadian side in respect of this one; we went to the U.S. side on that one and maybe we should go the other way in respect of this one."

Senator Grosart: Which is not a bad idea.

Mr. Smith: The only recent experience the two governments have had in this regard was in connection with the famous Gut dam claims that were settled in 1967 or 68. This was a special tribunal which consisted of one Canadian judge picked by the Canadian Government, one American picked by the American government, and a chairman, or chief judge who was from the Netherlands, a Dutchman chosen jointly by the two governments. That tribunal solved a problem the governments had experienced for 60 years and been unable to resolve.

I am not sure I wish to argue that this ought to be done, but the 1909 Boundary Waters Treaty contemplates the possibility of using the International Joint Commission as an arbitration board. The Columbia River Treaty contains an article specifying ways of settling disputes which may arise under the treaty. This suggests third party arbitration or referral to the IJC as a means of arbitration. There are a number of devices of this type that could be explored.

Senator Grosart: Do you think the International Court at The Hague might have a role in this respect?

Mr. Smith: Conceivably but, of course, both governments would have to agree to this and neither can haul the other into the court, but that is a possibility.

The Chairman: As a supplementary to Senator Grosart's line of questioning with respect to the joint ministerial

meetings, we have had two witnesses appear prior to yourself who dealt with this question at some length. One was pretty much in favour of the idea and one was, I would say, generally opposed to it. The one in favour stressed to some extent not what would be accomplished so much as that it would require a number of leading ministers on both sides to take three or four days out of their lives and focus their attention on the problems of the other country. This would involve, particularly, focusing by the United States on Canada's problems because the country is so much larger.

I detected in your answers to Senator Grosart's questions that you were neither for nor against it very firmly. Could you give us some idea of the balance, or where you would fall?

Mr. Smith: I am impressed with the weight of the argument in favour of it and particularly the way your witness described it, as forcing ministers to do this. I am sceptical, though, as to the way it would actually happen. I would be afraid that at the last minute this minister or another would have to pull out.

For instance, I could not see Henry Kissinger sitting down for three days to deal with a problem. He is not that kind; he just does not sit still that long. I could visualize the President on the telephone suddenly sending him to the Middle East. It is just not a practical thing to do at this time.

Senator Grosart: We do it in other areas; we have a Commonwealth, of which the heads of state hold meetings.

The Chairman: There is also one in Japan. However, the public would not expect particularly anything from it. It would just be a matter of focusing attention at different times. However, I believe you have answered my question, thank you very much.

Senator Macnaughton: Mr. Chairman and Mr. Smith: I wish to raise the question of, shall I say, lack of information between the two countries and the question of lobbying. After all, we are parliamentarians and lobbying is part of our function. In view of the fact that our Canadian ambassador is accredited to the State Department, how far can he go in lobbying Congressmen?

Mr. Smith: He can go pretty far, it seems to me. The same problem arises, of course with the American ambassador here, as to his contacts with members of Parliament. Certainly there need be no inhibition on him or his staff from cultivating personal acquaintanceships with members of Congress, with the staff, following developments and attending at least the public hearings.

You are quite right and I believe your question implies that there is a point beyond which a diplomat is expected not to go. He should not make formal representations, I suppose, to the Congress. That would be expected to go through the foreign office and the reverse is also true. If he were actively and visibly to lobby on the Capitol Hill in Washington against a clear policy of the administration, particularly if there were no immediate Canadian interest involved, he would run some risk of being pulled up short and told that that was conduct unbecoming his station. As a practical matter, in my opinion, the Canadian embassy staff has a pretty free hand in cultivating people on the Hill and making sure that the Canadian point of view is understood. It is a big job, however, it is a big Congress and just to keep abreast of what is going on in all the committees is a tremendous job. Incidentally, in my opin-

ion the Canadian embassy does a better job in this regard than the Canadian press generally gives it credit for.

Senator Macnaughton: Referring to parliamentarians, how far can we go? Is there any limitation outside of good taste and normal decent behaviour?

Mr. Smith: As a general rule, I would think not. After all, I can think of at least one member of Parliament who appeared before a congressional committee, and of one who picketed the White House a few years ago, and I do not recall that they caused any great rupture in the relationship.

Senator Connolly: If the opposite situation applied, it would be much more difficult in this country for the American, would it not?

Mr. Smith: I think you are right.

Senator Connolly: And the same applies to approaches to members of Parliament.

Mr. Smith: I suppose that is right.

Senator Connolly: It may get lost in the shuffle in Washington, but here it would be very prominent.

Mr. Smith: Yes, it would be. It would run the risk of being an intervention in a domestic process. You are quite right, and the point is well taken.

The Chairman: We would apply a double standard at that point.

Senator Connolly: Indeed, or the press would apply it for us if we did not.

Senator Macnaughton: I have a very simple question. Have you read "Ultimatum"?

Mr. Smith: Yes.

Senator Macnaughton: What is your reaction?

Mr. Smith: I think it is sheer fantasy.

Senator Macnaughton: That is a good reaction.

Mr. Smith: In my experience, it bears no relation whatsoever to the way business is actually done between our two countries.

Senator Macnaughton: That is as of the moment. Project your mind 10 years—then what happens?

Mr. Smith: I cannot see anything of that kind.

Senator Macnaughton: Even if you are freezing to death in Washington—

Mr. Smith: I do not think that is going to happen.

Senator Macnaughton: —and we are nice and warm up here or in Florida?

Mr. Smith: If that happens, we shall all move to Florida and join all the Canadians who are already down there.

Senator Macnaughton: There are so many things to talk about.

The Chairman: Please go on, Senator Macnaughton, if you have anything else to say.

Senator Macnaughton: I think we have a great obligation on behalf of people like ourselves to try to influence

members of Congress, both the Senate and the House, by any legitimate and fair means that we have at our command. After all, their magazines, media, and the rest of it, influence us, and this is just a counterattack on a different level, is it not? As a matter of fact, there might be a great deal of benefit from our various meetings in Washington and other places with our counterparts. We do get on very good solid ground. We may not agree as to policies or results, but we certainly advance our understanding.

Mr. Smith: I think that is very important.

Senator Macnaughton: It seems to me that critical questions will be coming up in the next few years, as you yourself have indicated, and it will take a lot of character on both sides, a lot of shouting and yelling and compromise. However, I appear to be making a speech rather than you.

The Chairman: I think, Mr. Smith, you would agree, with the pendulum having swung back to the Congress from the presidency in the last few months, that very possibly we have a larger job to do than in the past so far as Congress is concerned.

Mr. Smith: That may well be true. There is a new mood in Congress and these are a lot of fresh faces there.

Senator Connolly: And perhaps a new mood in the Canadian Parliament also.

Mr. Smith: Perhaps that is so.

Senator Connolly: A resurgence of back-bench opinion, and that sort of thing.

The Chairman: Yes. It is happening on both sides of the border. We shall now revert to Senator Connolly's opening question.

Senator Connolly: I need not tell Mr. Smith how delighted we are that he is here. As I think are all members of the committee, I am particularly delighted in the conclusion he reached, which is a very optimistic one. That is the kind of climate that should pervade the relationships between our two countries. We all thank you for making that very important and valid point.

Adlai Stevenson used to say that there are probably few countries, other than Canada and the United States, where the citizens of one country have more roots in the other country. I think this is largely true. I refer, of course, to the blood relationships between, for example, French Canadians in Quebec, New Brunswick or Ontario, and the descendants of French Canadians on the Atlantic seaboard, even down perhaps into Louisiana, and in other parts. Also in commerce the people of our countries think a great deal along the same lines. I think we found this in the war. We on both sides of the border approached the problems of wartime in pretty well the same manner, although our operation was small in comparison with the mammoth operation mounted in the United States.

Mr. Smith: Your operation was earlier than ours.

Senator Connolly: It was a few years earlier, but I know from personal experience—as other members of the committee who were involved with the forces know—that so many things were done by Americans serving in the same theatres of war. They helped Canadians. There was never any question about it. The help was given freely, quickly,

immediately, and with understanding. This should carry over and must carry over.

The notes given us by the staff on the type of discussion you were to conduct emphasize the question of the special relationship and the fact that perhaps it is different from what it had been. A lot of things should be cleared out of the way before we start getting concerned about the deterioration in the relationships between our two countries. For example, in the private sector of the economy I do not think the situation is any different now from what it was 50 years ago for a Canadian who wanted to do business in the United States, who wanted to go across the border, or for the man with whom he had to deal who came across the border into Canada. They sat down and worked out contracts that they thought were advantageous to both, and that kind of relationship still exists. In other words, the language spoken by a businessman today when he goes to New York, or when an American comes to Toronto, Montreal or Vancouver, is the same kind of language that was spoken 50 years ago. I do not think there has been any deterioration. If a special relationship existed and still exists, as I think it does, they work that out pretty well in the way they always have done.

I think too that the commercial and cultural exchanges we have had have been spontaneous because we so often think along the same lines, as our roots are the same. Three hundred years ago we were both undeveloped countries. We grew under conditions that were similar on both sides of the border. We had the same kind of objectives. We have different systems, but ultimately both systems work out to the same general purposes. These are all things that we have in common, which we must preserve.

Sport is a good example of the modern kind of development. Senator Grosart has already spoken about the academic field. The commerce is very great. There is also the field of scholarship. This is the way it should be. There should be no barriers to that kind of "trade", because if scholarship means anything, it means the search for truth, and whether we are American or Canadian, truth remains immutable.

So this special relationship exists because we live on the same continent, relatively speaking we have the same type of climate, our institutions are similar, and our ways of doing business are similar. Our thinking sometimes is perhaps too similar, because of our means of communication to express our views. But when we come to the public sector we say the thing is deteriorating. Perhaps you would agree that there may not, in fact, be a deterioration but, rather, a development in the complexity of the problems confronting both countries and the interdependence of the two countries which has led to the development of a situation where more care has to be taken, more concern shown by both sides. After all, both governments have the responsibility of working for the welfare, primarily, of their own people.

Mr. Smith: I agree wholeheartedly with what you have said, senator. Historically, even with our differences, our sharing of varying personal relations, family and otherwise, is very real. It is the fabric of North American society. I agree that the issues are more complex and will require great care on the part of both governments.

The phrase "special relationship" I always find difficult to cope with, because people do not generally define what they mean by it. It is special by the very nature of our two countries, the geography and interaction of the economies,

and so forth. What may have changed in Canadian terms is that the Canadian economy is now stronger than it was, say, 25 years ago.

Senator Connolly: It has become industrialized since then.

Mr. Smith: It has developed, of course. The old kind of sort of patronizing relationship, therefore, is neither necessary, relevant, or desirable. I could not agree more that both governments need to exercise great care in the conduct of the relationship.

Senator Connolly: I think back, for example, to the time when Mr. King went to Ogdensburg and met with Mr. Roosevelt. They came away from that meeting with a wonderful arrangement which not only tided both governments over until the Americans declared war, but which was a very effective arrangement for the allied cause.

Mr. Smith: The Permanent Joint Board on Defence came out of that meeting.

Senator Connolly: That is right. I remember going to some of those meetings with the Chief of the Canadian Naval Staff. These were very important things. The Defence Production Sharing Agreement and the work which Sid Pierce did in Washington on that was a very important agreement. That agreement was in the interests of both countries. It was perhaps more economically important to Canada because it meant new skills, new technologies, new kinds of employment. It was a continuing thing, too, and one which had a great deal to do with the industrialization of Canada.

I also think of the work that C. D. Howe did in those days. I hope I am not making a political speech, but he happened to be the man who was in charge of it. His counterpart in many cases was George Humphrey, and what those two gentlemen were able to accomplish on the telephone amounted to a tremendous contribution to the allied cause. It was beneficial to the Americans, too, as I remember it, because Americans could go so far and then they depended substantially upon the production of components, and things like that, which were required for their own programs and which were useful for the Canadian program as well. The air training scheme was another program which worked to the mutual advantage of both countries.

Those programs, perhaps, were imposed upon the two countries because of the urgencies of war. Now we get into the problems of energy shortages, pollution, or one of the other points to which you referred that struck me very forcibly. These are problems of a different order. They are continuing problems.

Again, I am not asking a question, but I like to think back to the days during the First World War when we had no oil production to speak of in this country and when there was rationing in the United States, especially for civilians. In spite of that, there was always enough made available for Canada and for Canadians, even though we had to ration it.

In spite of what Mr. Pearson said in Florida, and in spite of what Mr. MacEachen said in Winnipeg recently, I do not think that special relationship can ever disappear. I do think our approach to problems, however, has to be a more reasoned, more understanding one. I am perhaps being more optimistic than I should be, but certainly I am

delighted to see your optimism about the eventual outcome of resolving these problems. We have to; we live together.

I intended to ask some questions. Instead, I made three speeches.

The Chairman: Perhaps Mr. Smith could comment on some of your remarks, Senator Connolly.

Mr. Smith: I think you have said some very important things, senator. One of the things we must not lose sight of, it seems to me, is that we are both going to face some big problems in the global context, problems that are bigger than either of us, which are going to challenge our best minds. I am thinking, for example, of the world food shortage, the energy shortage, the international monetary structure, and so forth. These are issues on which the future of the world may depend. Our interests in these areas are compatible and congenial. Perhaps they are not always identical, but there are certainly no clashes. We are both going to have to shoulder our share of the burden of meeting these problems. In that context, I am confident that we will cope satisfactorily with the particular bilateral problems facing us.

Senator Rowe: Mr. Smith, I was rather intrigued earlier when you referred to the reaction in recent years of Canadians and vice versa. In your earlier remarks you said that reaction sometimes has been so shrill as to be almost anti-American. I appreciate that this is a matter of subjective interpretation, but would you care to cite an instance of what, to you, appeared to be approaching anti-American reaction on the part of Canada or Canadians?

Mr. Smith: I do not want to get to the point of citing particular statements, or whatever, by particular political figures. I am thinking of some statements that were made publicly at the time we both were faced with a possible cut-off of Arab oil. I do not mean to suggest that the more narrow, nationalistic statements were confined to the Canadian side of the border by any means. There was a quick disposition on either side of the border to say, "Boy, we have to look after our own needs first."

It was not long after that that Prime Minister Trudeau, in a public statement—one which I thought was very statesmanlike—indicated that Canadian trade policies, meaning trade in Canadian energy, were not going to be dictated from abroad, that friendship with the United States was going to continue to be a cornerstone of Canadian policy, and that Canada would carry out such measures as she had to with full regard to possible problems she could create for the United States. His statement, I thought, was a balanced and reasonable one. Some of the earlier statements that emanated from the Canadian government hit Americans rather hard, although they may have amounted, basically, to the same thing. Style in this respect is a matter of great importance. I do not need to remind anyone here that a lot of Americans, while they have a great reservoir of goodwill towards Canada and Canadians, and though they may be terribly uninformed about Canada, when they suddenly encounter what to Canadian ears may be a fairly mild statement about the relationship, it takes them aback, there is a cultural shock. It would not surprise them if it were said by a Frenchman, a German, a Korean or whatever, because in their minds he is clearly a foreigner, but to him, "Canadians are just like us," and it is a bit of a shock. Maybe he needs to be shocked in this way on occasions. I would hope that Canadians would avoid any glee in the voice when they say some of

these things. I am not thinking so much of political leaders as I am on occasion of the public news media.

Senator Bélisle: I have a supplementary question. Would you consider the statements made during the very controversial ban on beef to be thought of as anti-American? At least, that was the way I read it.

Mr. Smith: I think this was one of those unfortunate situations where we had a clear head-on clash of policies. There was a feeling, probably on both sides of the border, that the negotiations had not really been conducted in good faith, that the political leaders on both sides were more concerned with short-term political problems, et cetera. I think it is unfortunate that it ended up as it did. In the broader spectrum of things it does not worry me. However, that is not a shining example of how to conduct business between the two countries, the way that problem was handled.

Senator Carter: I should like to clear up one point. In your presentation you spoke about future problems, and among them you mentioned regional development. As an example you mentioned a tire plant in Newfoundland. It is Nova Scotia, is it not, the Michelin plant?

Mr. Smith: Yes, Nova Scotia. It was a slip of the tongue; I am sorry.

Senator Carter: It is Nova Scotia, not Newfoundland. You were talking about boundary problems and you mentioned the Main border, the Alaska border and the west coast. You did not mention the Arctic. Do you foresee any problems, probably not boundary problems, but problems similar to boundary problems, arising in the Arctic between the two countries?

Mr. Smith: I cannot as a practical matter. As you know, both governments are very much involved in the United Nations Law of the Sea Conference that has been going on for some time now. Here is one general field of issues where the two countries do have somewhat divergent points of view, Canada regarding herself primarily as a coastal state without a big merchant marine, perhaps without attaching the same importance that we do on our side to strategic considerations, the rights of passage through straits and so on. I think we are probably closer together than we were a couple of years ago. I think this problem will have to be dealt with in that multinational United Nations forum. I do not see a bilateral clash between the United States and Canada on this issue. We all remember the voyage of the *Manhattan* and so on. That, of course, was not a United States government operation. Granted it was an American flag, but it was a private operation. Our concerns in this regard have never been that we thought Canada would irresponsibly seek to control those waters. Concern on our side was always that other countries less responsible than Canada would cite the Canadian example as a right to close off a strait, or whatever. This was where the concern was. I do not see this as a major problem between the two countries.

Senator Carter: Do you see the United States and Canada supporting each other on this 200-mile limit for the ocean bed resources and resources of the sea?

Mr. Smith: I am just not sure. This gets highly technical, with questions of economic zones, fishery zones and so on. If I am correctly informed, there are some differences between us, but we are still a long way from the end of the road of negotiations here, and when we finally get there I

suspect that Canada and the United States will be very close together.

Senator Carter: We have this common interest in preserving the fish stocks, which are being depleted by foreign sources.

Mr. Smith: That is right.

Senator Carter: It would help if the United States and Canada made a common cause on this question, which I think is the main interest Canada has. The time is vital to us and vital to my province of Newfoundland, because if the fishery is destroyed our economy is destroyed. We see no hope of survival of the fishing industry unless something is done about the 200-mile zone, at least for fish management. When we come to the ocean bed resources it is another matter.

Mr. Smith: I think our fishermen feel as strongly about it as those from Newfoundland, and share their views.

Senator Carter: You mentioned the Joint Cabinet Committee on Defence. That fell into disuse. There are no burning issues at the moment, so there is not much need to keep it in being. However, next year the NORAD agreement will come up. What do you think would be the United States reaction if Canada decided not to renew the NORAD agreement?

Mr. Smith: I think it would depend upon the reasons and what Canada might want to propose in its place. After all, it has been clearly stated by successive Canadian governments now that there is an intent to continue to co-operate as long as necessary in the air defence of this continent. As long as that remains a basic element in Canadian policy, then the form in which it is done is, in my judgment, of less importance, and I think it would be so regarded in the United States. If, however, you are suggesting that a Canadian government were to say, "We no longer will co-operate in any form whatsoever in continental defence," this would be a shock in the United States.

Senator Connolly: It would be a shock here.

Senator Carter: I do not think that will come. In your earlier remarks you spoke about problems that had arisen, and referred to the imposition of surcharges in August, 1971. I think you said Canada over-reacted. Would you elaborate on that a bit?

Mr. Smith: I put that forth as my judgment. If you remember, at the time there was an unfortunate combination of circumstances. The Prime Minister was out of the country, the Foreign Minister was out of the country, the Finance Minister was out of the country. In fact, I think Mr. Sharp, who was Secretary of State for External Affairs, got back that Sunday night perhaps just an hour before the President made the announcement. Anyway, it caught the Canadian Government by surprise, because, of course, as we all know, there had been no prior consultation by the U.S. government with the Canadian government on this question. The stock market did not panic, as I recall. I do not recall that the financial commentators and critics in the press panicked at all, but there was an immediate move on the part of the Canadian government to send ministers down to Washington to plead that this was going to do irreparable damage to the Canadian economy and, therefore, to plead for an exemption. My recollection is that when the Prime Minister got back he quickly calmed this reaction.

On the U.S. side, the assertion was made that, "No, it is not going to have that bad an effect on the Canadian economy." And, as events developed, it did not have forgotten the precise figures, but Parliament authorized something like \$80 million for possible assistance to firms hurt by this. I don't think even one million dollars of that was ever used, if I am correctly informed.

So, you know, I think there was an over reaction. I can understand why. Perhaps it would not have been that way, if there had been some prior consultation on the part of the U.S. government. Again, this is not a model of how best for governments to deal with each other, it seems to me.

Senator Carter: I should like to follow up on this special relationship. I gathered from what you said that we could not very well help having a special relationship: we had common traditions, a common way of development, common experiences and so forth. While it is getting more complex now, while we have a different ballgame because we are two different countries and our interests have grown apart and are more likely to conflict, if I interpreted what you said correctly, and as Senator Connolly said, too, this situation is likely to continue and it is pretty hard to upset that kind of relationship. Yet our foreign affairs minister said that our era of special relationship is over. We are starting to go beyond that. If I am quoting him or paraphrasing him correctly, what he said was that the shape of things to come is one of consultation aimed at avoiding misinformation, because, as you said, a lot of the problems just referred to, such as the surcharges, were the result of misinformation.

Now, I should like to ask a couple of questions on that. What is your concept of a special relationship, anyway?

Mr. Smith: Well, to address myself to that one, senator, I just do not know, and I am not entirely clear what other people have meant by it in the past, beyond saying that, sure, there are shared historical experiences here, there are personal ties and so on, there is the proximity and the amount of our trade and all of that. In that respect the relationship is special, or at least it is unique.

If people mean, when they use the phrase, that somehow the U.S., when it makes decisions which affect its relations with other countries, will always and automatically treat Canada as though she were not a foreign country, I think that time is past—if it was ever necessary and I am not sure it was. I think it is below Canada's dignity, for one thing. If it means that in the future—what will I say, for example—that special exemptions will be granted for American enterprise in Canada, or whatever, those days are clearly changing.

I read Mr. MacEachen's recent Winnipeg speech. Frankly, I found it a very thoughtful and reasoned statement. I did not find anything particularly new or surprising in it. It is a re-statement of the kind of point of view that his predecessor voiced on several occasions. It did not alarm me as an American at all. I did not find anything to quarrel with within it.

Having said all that, sure, we are in a different era in the relationship. I think that is true. But I am not dismayed by it and I remain confident of the future.

Senator Carter: I think we have two problems in our relationship with America. One is the exchange of infor-

mation or misinformation. Somehow we come up with one set of information and you people stand by another set, and it takes a long time before action is taken. Both sides dig in their heels and both sides get going on wrong assumptions. That is one problem.

The other problem is the press. Your American press carries very little news about Canada so that the ordinary person in the street does not read or does not know very much about what is going on in Canada. The opposite is true in Canada. There is a great source of public opinion editorially built up here on whatever action is taken by the United States that impinges at all on Canada. Do you see anything that can be done to ameliorate or avoid these two problems?

Mr. Smith: Let me talk first about the first problem. You will remember at the time in 1972, or in that period, that there were rather bitter—maybe that is too strong a word—rather forceful discussions going on between the two countries about whether the automotive pact was operating the way it should, was operating fairly, or ought to be changed, or whatever. For the most part we were, of course, arguing from different sets of statistics. No wonder we could not agree! Since then, remarkable progress has been made in reconciling basic trade data. The job is not entirely done, but this is a very hopeful sign. We may still get mad at each other or differ in our judgments, but at least the prospects are that when we are dealing with statistical data we will be talking from the same base. So I am hopeful on that score.

The problem of public information or treatment by the press is a very difficult one. The things I cited earlier about increased academic interest in the States will, I think, help in this regard. Your embassy in Washington has, in my judgment, a very good and very active and skilful public information program with respect to all kinds of things: movies; their own publications, which go out all over the United States; speeches and that kind of thing, and the distribution of information about Canada. It is a big program. I have no idea what it costs the Canadian government, but it is active and it is very skilfully run. This will help. Things like Expo 67 helped. Seven million Americans visited Expo 67. The Olympics will help—assuming that the Olympics come about. Things of this kind all help. The situation is changing as Canada's population gets bigger.

Senator Connolly: When the Expos win the World Series, that will help, too!

Mr. Smith: That will help also. But the problem will always be there to some extent, I suppose, so long as there is a great disparity in size.

Senator Deschatelets: Before you leave this topic, may I ask a supplementary question?

The Chairman: Certainly.

Senator Deschatelets: You just mentioned that the Canadian embassy has a public information program.

Mr. Smith: Yes.

Senator Deschatelets: Am I right in assuming that if the Canadian government were to decide on certain legislation, or adopt a certain attitude, our embassy would supply written information to members of the Congress or the Senate of the United States?

Mr. Smith: Certainly, if it were requested by a member of the Congress, and I would think they would be free at any time to do so, even if it were not requested.

Senator Deschatelets: Would there be anything wrong on the part of the Canadian embassy if it were to do something like this. Let us take the example of a possible decision to curb or control American investment in Canada—and, of course, this would be very popular on Wall Street, as happened before. If we receive and send out to our provinces booklets explaining the purpose behind the decision, what would be wrong with having the Canadian embassy sending booklets or other information to senators or members of the Congress in the United States?

Mr. Smith: I do not see that anything would be wrong with it.

Senator Bélisle: Would it have to be requested? We do not request these things, and we receive, for example, the presidential message every week. We do not object to it, of course; we love it.

Senator Connolly: We get it from every other embassy, too.

Mr. Smith: The trouble is, you may be flooded by these things and never read them.

Senator Deschatelets: Can you tell me if this is done, actually, through our Canadian embassy in Washington?

Mr. Smith: I assume it is, but in point of fact I do not know whether they get down to that kind of detail or not.

The Chairman: Senator Deschatelets, it is our plan to call Mr. O'Hagan, who is our chief information officer in the Canadian embassy in Washington, and he will go into that for us.

Senator Carter: Senator Deschatelets has asked the next question that I was going to develop. If we cannot inform the United States public to any extent through the press, I was wondering if we should not zero in on Congress, particularly now that Congress, as you say, is taking on more responsibility. They are taking a stronger hand in the affairs of the country, and that is one way that possibly we could do it. I do not know whether we are already doing it, of course.

Mr. Smith: I assume it is being done.

The Chairman: We will certainly go into it more fully with another witness.

Senator Bélisle: Mr. Smith, in your short statement you said that we had approximately \$40 billion worth of transactions between Canada and the United States last year, and a criss-cross of 35 million visitors every year. I have travelled through 49 of the states, and in 1960 I visited Hawaii, where I was amazed to see more knowledge of Canada than I saw in some of the southern states.

Mr. Smith: That is interesting.

Senator Bélisle: A while ago I asked a question regarding students. Could it be that if we were to have more of our students abroad and less of your professors here that might be better for Canada? I believe that in Ontario we import approximately 18 per cent of your professors. I may be wrong, but that is the figure I was given three months

ago. The figure is higher for lecturers, I understand. I am told that this figure is applicable all across the country, except for the province of Quebec. Could it be that if we had more Canadian students abroad and less American professors here—or if we had more professors who stayed here for a shorter time—could they then be better friends of Canada, or better ambassadors for us over there?

Mr. Smith: You have touched on a very complex question, senator. This whole controversy that I have been conscious of in Canada in the last several years, regarding the influence of so many Americans in the Canadian university system, particularly on the faculties, arose, of course, because of a sudden expansion—a need to expand—in the Canadian university system, beyond the point where Canadians with doctorates and advanced degrees in various fields were available, and a lot of Americans came here because the offers were very, very attractive. A lot of them like the life here, and they have stayed. I assume they are no longer coming in numbers of that kind. I just do not happen to know what the facts are, but I assume that is the position. What you do at this point about the extent to which Canadians may be concerned about an undue American influence is a very awkward question, and raises the whole matter of academic freedom, of faculty tenure, and of this and that; but I am happy to say that it is not a question, as far as I am aware, that the two federal governments have ever been involved in. It has not been an issue between governments. Meanwhile, students, of course, study back and forth in great numbers between the two countries.

Senator Bélisle: I referred to having professors here for a shorter period. As you know, it is much easier for Americans to emigrate to Canada than it is for Canadians to emigrate to the United States. Could you tell me why it takes so long—four, five, six, sometimes seven years—to get a final decision from Washington on an immigration, and also to get a working visa? Unless you write directly to the ambassador, you know, it is—

Mr. Smith: I understood that the waiting time was much shorter than that, but I am not informed currently on this situation. The problem arose several years ago because of a change in American immigration laws. Prior to that time United States immigration law had applied quotas to many countries around the world, but never so far as Canada was concerned, nor, indeed, to any other nation in the western hemisphere. At the time this change was made all quotas were lifted from individual countries, but there were hemispheric quotas imposed, and it was therefore a total hemispheric quota, and anyone in the western hemisphere fell under it. It was a question of first come first served, and it was largely because there were so many people wanting to immigrate from Latin American and the Caribbean islands to the United States that Canadians got caught up in this. That is what is behind the waiting period. There have been proposals from time to time put before the Congress for a change in this law, and I think one of these days it will probably happen, because I do not think it makes much sense the way it is. I agree with you.

Senator Bélisle: I was told in Toronto by one of your immigration officers that we were fortunate that a quota was never imposed; but he said, "We just do not approve them, and after five, six, seven years, they change their minds and do not want to immigrate any more, and so we do not have to impose a quota." Is that a good way, psychologically, to impose a quota?

Mr. Smith: That sounds very strange to me. At least, when I was involved in the State Department I never encountered anything quite like that.

Senator Bélisle: Is it possible to find out, Mr. Chairman, how many Canadians immigrate to the United States, and vice versa?

The Chairman: I am sure it will be a simple thing to establish through the immigration department, and we can make that inquiry if you like.

Senator Yuzyk: Let us go back for a moment to the surcharge crisis, which brought about rather intense feelings on both sides, and which eventually did lead to the Nixon-Trudeau summit. That brings a new feature into Canadian-U.S. relations. How do you look upon the usefulness and the effects of that summit meeting between Mr. Trudeau and Mr. Nixon from the American point of view?

Mr. Smith: Well, my recollection is that they met in Washington in December, 1971, and there was a Nixon state visit to Ottawa in April, 1972. At that time certainly I thought that they were very useful from the standpoint of both governments, certainly from the American standpoint. I thought they were overdue and that they did quite a lot to clear the air. As you will recall, President Nixon in his address to the joint meeting of both houses of Parliament said some things about the relationship between the two countries, and particularly about this problem of balance of payments, that were very, very important as policy statements on the part of the American President that had not been said, at least publicly, before, and at the time I thought it was useful to have them said and I think it helped to clear the air quite a bit.

Senator Yuzyk: I would think advance consultation is very important, and I think we could overcome many of our problems if we had some kind of mechanism for such advance consultation. But going back to summitry in this case, it seems to be some sort of emergency measure here. Do you think we should advocate summit meetings at intervals to discuss problems that may have arisen in the meantime and which may have caused complications, or am I interpreting that summit meeting differently?

Mr. Smith: It is a difficult question for me to come to grips with in my own mind. I think it would probably be a mistake to say, "Once every year, on December 1st, these two men will meet." Obviously you do not mean something like that. I think it is very well worthwhile early in the tenure of either a new Prime Minister or a new President of the United States for these two men, the leaders of these two countries, to establish a personal contact even if it is not much more than a getting-acquainted session as I gather the meeting between President Ford and Prime Minister Trudeau was. I think that is useful. Then there are channels for personal contact between them short of visits, in an emergency situation or any other situation that might warrant it by telephone or by personal cable or whatever. I think that it is useful to have that. Furthermore, if a meeting goes well it sets a tone for the staffs of both men for their general guidance. But if you get, as sometimes happens, some kind of personal antipathy or clash of personalities, then that does not help at all. By and large I think that in these things generally it is the national interest that prevails and not personalities really.

Senator Yuzyk: I would think it is rather important, because I remember the tremendous effects which President Nixon's address to both houses here had.

Mr. Smith: Would you permit me to ask you—what you thought—

Senator Yuzyk: If we had it in reverse, that our Prime Minister could address Congress, then I think it would focus American thought on the fact that "Here is Canada. Maybe we have taken some things for granted." Then perhaps it would bring the problems closer to them and probably in a more friendly way than is the case at the present time when we discuss them in the press and tear things apart.

Mr. Smith: I think it has much to recommend it.

The Chairman: I think, Senator Yuzyk, that Mr. Smith started to ask you what you thought of the President's speech here. I can remember it quite vividly, and certainly my impression was that it had been very, very carefully prepared and was most useful.

Senator Bélisle: Was there ever a case where a Prime Minister of Canada addressed both houses in Washington?

Mr. Smith: I am sorry, but I do not know. So far as my knowledge goes, I do not think so. Perhaps Mr. Mackenzie King did, but I am not sure. Certainly this has not happened in recent years.

Senator Deschatelets: Is it customary for heads of state visiting Washington to address a joint meeting of both houses?

Mr. Smith: Perhaps not customary, but it is not without precedent; it has been done.

Senator Connolly: I do not think that Mackenzie King did. I do remember that at one time during the war he gave an address to both houses of Parliament at Westminster Hall—not in either house—and this was a great event for him.

The Chairman: Mr. Churchill used to steal everybody's thunder when he addressed the two houses.

Senator McNamara: Mr. Chairman, I want to come back to how the two countries are doing business together. I think all our witnesses have referred to these cabinet committee meetings and how they are not being used. Before I pose my question I should give my reaction. I think that it is natural that Canada and the United States, because of our location and the convenience of the telephone and things like that, do negotiate differently from other nations. I do not think that the relationship between the United States and the United Kingdom, for example, can be the same as that between the United States and Canada. But I am becoming very concerned that cabinets are not being involved more collectively, and individual cabinet ministers, mostly from the Canadian side, are making direct representations to their American counterparts, and I feel we are losing a great deal of advantage by this. I say this because I have always felt that the External Affairs Department and the State Department are manned by diplomatic people and that confrontation situations would not be likely to arise if you had diplomatic people dealing with these problems. My feeling is that while you cannot have the cabinets involved, you have committees of cabinet involved and they could agree that if there were some serious problems coming up then they could meet to discuss them rather than leaving it to an individual Canadian minister to go down to Washington to make his own case. I do not want to be personal, but I think that on

the beef issue neither side had its best diplomatic people negotiating. The fact that confrontation has developed would seem quite natural having regard to the personalities. But if we had had other representatives of cabinets with representatives from the State Department and External Affairs we would not have had the same difficulties. I wonder if you share my view that Canada is losing out by not having representations made through the External Affairs Department to the State Department rather than having the provinces go down or individual cabinet ministers who have a problem embarrassing them at home but which is not really an international problem. I think we are getting away from true diplomacy between our two countries. Do you share my concern on this? Do you see my point?

Mr. Smith: I see your point, certainly, senator. I think there is a real danger in this for both sides.

Senator McNamara: But mostly from the Canadian side in the past? Do you agree?

Mr. Smith: I am not sure. I am not now speaking of present personalities, but finance ministers always seem to be close to each other and the same things applies to defence ministers. There is a good deal of this kind of thing that has gone on in both directions, and there is a danger of things being dealt with in too narrow a context and losing sight, perhaps, of the broader relationship. In general I agree 100 per cent, but my only difficulty is, as I indicated before, with regard to how cumbersome it can be to get five Canadian and five U.S. cabinet members to sit down for two days together uninterrupted. Which is not to say that it is not worth a very great effort to do that.

Senator McNamara: Could that not be narrowed down on each side to just include the State Department and the Department of External Affairs?

Mr. Smith: That is maybe a middle ground which might work.

The Chairman: As we have gone through the first round of questioning, Senator Carter, before returning to you I would like to ask a question on a very important area. Could you give us your thoughts in relation to the problems of two federal states living side by side and the direct contacts that take place between provinces on our side and your states on the other without consultation, in our case with our Department of External Affairs and in yours with the State Department? How much of this goes on and how much of it has been, in your experience in the State Department, of some embarrassment because the respective federal governments were not brought into the picture? Is it an area of concern.

Mr. Smith: It is probably an area of more concern on the Canadian side than it is on the U.S. side because there we have a constitutional prohibition against a state entering into a formal compact, is the word used in the Constitution, with a foreign state or, indeed, another state of the United States without the consent of the Congress. By and large states abide by this without any great difficulty.

The problem, I suppose, arises in two senses: with respect to contiguous states there are many practical day-to-day problems in connection with which co-operation with each other is necessary. It may be in the form of fire-fighting equipment being used back and forth across the border. One can think of a number of other situations of this type, such as mutual recognition of drivers' licences.

This type of day-to-day, often very informal, contact occurs quite often.

On the other hand, in my opinion this arises more with respect to Canada than with respect to the United States. Certain provinces assert near exclusive jurisdiction over particular fields whether education, cultural affairs or natural resources. In such cases it is the desire of the provinces to deal directly across the border, whereas we do not have quite that constitutional separation on the United States side.

As a practical matter, from the American point of view it is not a great problem. From the standpoint of the Department of State in Washington, at least I felt when I was there that I had to be very careful not to do anything that would seem to be encouraging provinces of Canada to deal with us as a federal government behind the back of the Canadian federal government. We did not wish to be vulnerable to charges of mixing in internal Canadian political matters.

Sometimes representatives of provinces themselves did not always share that sensitivity and on many occasions I have—maybe not many, but I can recall some occasions when I went out of my way to make certain that the Canadian embassy in Washington knew that there was to be a representative in town from such and such a province looking to see some people in the federal government and inviting the embassy to be present.

In my opinion it is a more sensitive problem on the Canadian side than on the American side.

Senator Carter: I would like to follow up the question raised by Senator McNamara with reference to the cabinet committees. I know you made the point that they are cumbersome, not practical and it is difficult to get a number of cabinet ministers together for a couple of days. However, on the other hand, when you say that, are you not implying that there are other matters more important than this? Where do we put this in the scale of priorities or importance, and is it worth enough to make a special effort to overcome these problems?

Mr. Smith: As I hope is apparent from my previous remarks, I myself need no convincing of the importance of this relationship and believe in it very strongly. So would someone such as Secretary Kissinger. All I am really suggesting is that there are other demands on his time and that of his colleagues and they can be extraordinary. While perhaps he could block off two days a month from now on his calendar another colleague might not be able to do so for the same time. It is just very difficult.

Senator Carter: I am asking the question from the standpoint of a recommendation this committee might make. Should we recommend that these cabinet committees remain dead, or be reactivated, or would there be some middle course we could recommend?

Mr. Smith: I would certainly hope that the committee would not decide that they should be abolished. They are still there on paper and can be revived at any time the governments so desire and in my opinion it would be a mistake to abolish them.

I believe that if it seems to you that they really have some value the thing to do would be to ask the Department of External Affairs to take some soundings in Washington to ascertain if some time in the next several months would be a propitious moment and what items would be included

in a potential agenda six weeks or two months from now. It would be useful to discuss this by taking some informal soundings in that fashion.

Senator Carter: Our new Secretary of State for External Affairs is laying heavy emphasis on prior consultation. How effective is this prior consultation? If a government decided to go a certain course, is prior consultation likely to change it?

Mr. Smith: That is one of the real problems when considering consultation.

The Chairman: Maybe "warning" is the word?

Mr. Smith: Well, maybe. What do we mean by it? When one government pledges itself to consult with another, does it mean only informing it after its own decision has been made, or is consultation carried on in the formative stages, before the decision is absolutely fixed? This becomes difficult for cabinet ministers and perhaps more so in the parliamentary system. I am not sure. Does a member of the Canadian Cabinet tell his American counterpart of government plans before the House of Commons is informed, for example? It is a different situation for him.

Senator Carter: But could this not more profitably be done in a committee such as a cabinet, where the main objective is to avoid misunderstanding and misinformation so that each can fully comprehend the problems faced by the other government and measures taken to solve them and find out how best to do that with the minimum inconvenience to each party?

Mr. Smith: And without catching the other fellow by surprise. This is a very important part of it. As awkward as I argue it is, it still may be the best instrument that is available.

Senator Carter: We have this Canada, which is so relatively small in population. The size of our budget and our economy is so small compared with those of the United States that we prefer to negotiate on issues, rather than on a package, because in the latter case a trading situation could develop in which concessions must be made and one thing traded off against another. Would you care to comment on that? What other alternative is there?

Mr. Smith: I think that by and large there is not a satisfactory alternative in the relations between Canada and the United States, from your point of view or from ours—either one. I think we have been most successful when we have confined an issue to one thing. There are some that are clearly relatable. Some economic problems are relatable to another. To take two that are quite unrelated—say something like the NORAD Agreement and the Automotive Pact—this is hopeless and leads into all kinds of things. When someone argues, "Well, if they do that to us, we'll hit them over here with that," no one wins that kind of game. They are two-edged swords.

Moreover, as a practical matter of bargaining—we were talking about the business of delineation of boundaries. I could very well say, "Well, we in the U.S., let us be reasonable and accommodating here off the East coast if they will be reasonable and accommodating off the West coast." That might make a lot of sense to me, but I would have great trouble explaining that to Senator Muskie of Maine, even though a senator from the West coast might think it a very good thing. I assume there are political problems of this kind in Canada. So, in fact, a tradition has

developed pretty much whereby we confine the bargaining to specific issues or very closely related ones. I really think that is about the only way you can deal with it.

The Chairman: Would you say that also applies to the question of tariffs, where we might want to get into a package insofar as resources are concerned on the one hand, where you have tariff barriers as opposed to manufactured goods where you start putting on tariff barriers?

Mr. Smith: There may be room here for some kind of sensible bargaining.

The Chairman: It falls into your category of "largely related".

Mr. Smith: Yes. They are both economic. You are talking about access to raw materials on the one hand and access to markets on the other. It would be worth real study.

The Chairman: Coming back for a moment to the prior consultation question, to what degree is there a problem, in that both of our countries being democracies we have a very agile media. If you do too much prior consultation, it would get out into the open before you announced it to your own people. To what degree is that a problem?

Mr. Smith: It is not a great deal. I do not think it has been a real problem in the past. I suspect it is becoming a real problem. Today there are no secrets in Washington, virtually.

The Chairman: The Xerox machine is eliminating that.

Mr. Smith: Yes, that plus conviction on the part of Congress that they have not been dealt with openly and honestly by the Executive in recent years. They will

require by law disclosure of all kinds of things that people never did before. That may well make diplomacy more difficult. I think it is too soon to see how much of a problem it is going to be, but you may have put your finger on it.

The Chairman: As we have no further questions, I would like to wind up this meeting of the committee, apart from thanking you, sir, by taking you back approximately 10 years to when Prime Minister Pearson—Senator Connolly, who was a close friend of his, may correct me if I am wrong—made reference to the fact that our relations with the United States could no longer be considered automatic as they had been in the past, that they were no longer automatic because of the complexities, and we would have to be prepared for continuing good relations with the United States, by means of a good deal more negotiation than had been required in the past when things almost followed automatically one from the other.

Perhaps that was a happier choice of words than the reference we had today to special relationships. In the past, for a long time, it was an almost automatic relationship. It is not quite so automatic now, but that does not mean that it cannot still be fruitful for both of us.

Senator Connolly: Yes; that is the whole point.

The Chairman: With that, I would like to thank you, sir, for taking the time and trouble to come all the way to Ottawa. We appreciate it very much, and we know that your observations will be of help to us in preparing what we hope will be a helpful report.

Mr. Smith: It has been a pleasure to be here.

The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

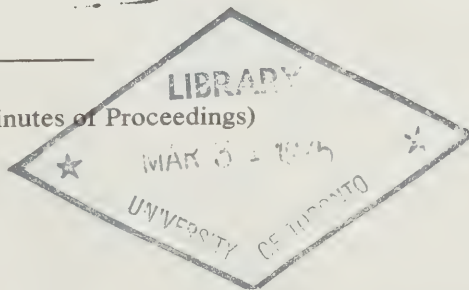
The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 6

TUESDAY, FEBRUARY 18, 1975

Fifth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, February 18, 1975.

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2:35 p.m. this day.

Present: Honourable Senators Bélisle, Cameron, Carter, Connolly (*Ottawa West*), Grosart, Lafond, McElman, McNamara, Sparrow, van Roggen and Yuzyk. (11)

Present but not of the Committee: The Honourable Renaude Lapointe, Speaker of the Senate; and the Honourable Senator Forsey.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness:

Professor Maxwell Cohen, Canadian Chairman of the International Joint Commission; and Mr. Lloyd MacCallum, Legal Adviser and assistant to the Chairman of the Commission.

On motion of Senator Grosart,

Ordered: that the "Notes", on which Professor Cohen based his opening statement, be appended to the Committee's printed record (*See Appendix "A" to these proceedings*).

At 4:20 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, February 18, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 2.35 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, just before introducing our witness today, I should like to remind you of the meeting of this committee on Thursday morning, when Premier Hatfield of New Brunswick and former Governor Curtis of Maine will be our joint witnesses, on the subject of relationships between a province and a state in our two countries, both insofar as they deal directly with one another and through their respective federal governments. It should be an interesting and stimulating meeting.

This afternoon we are delighted to have with us Professor Cohen. Having been appointed last year, he is, as you know, Chairman of the Canadian section of the International Joint Commission. He scarcely needs further introduction to this meeting. He has appeared frequently before parliamentary committees. Professor Cohen has been on numerous federal-provincial commissions and arbitrations. I am proud to say he is a lawyer, and a very notable one. He gained much of his reputation as a lawyer at McGill University, where he joined the faculty in 1946, and where he was Dean of the Faculty of Law from 1964 to 1969. I will not attempt to go through his curriculum vitae, because it runs to too many pages, although perhaps many on the committee are not familiar with his record of accomplishment.

Before calling on you, Professor Cohen, I wonder if I might recognize your good wife who has been kind enough to grace us with her presence today, and also introduce to you, honourable senators, Mr. Lloyd MacCallum, the Legal Adviser and Assistant to the Chairman of the International Joint Commission who is with Professor Cohen today.

Professor Cohen, if, as we discussed, you would be prepared to commence with an initial presentation, Senator Grosart has kindly agreed to lead off the questioning.

Professor Maxwell Cohen, Chairman, Canadian Section, International Joint Commission: Mr. Chairman, may I express my delight at being here? It is a great pleasure to have to come and try to debate with knowledgeable people on issues on which they are probably far more knowledgeable now than I am, after all the distinguished witnesses you have heard. I also owe a debt to Mr. Dobell and Mrs. Seaborn for guiding me gently to these precincts and arranging for the kind of presentation they thought the committee wanted. I owe a debt to you, Mr. Chairman, for carrying on the process by wisely indicating to me what might be the matters of most importance to the interests of this committee.

You made a distinction between your interest here at this time in United States-Canadian structures as against substance, and I am going to devote myself therefore to the discussion of the structures of United States-Canadian relations and not so much to substance, although of course you cannot avoid substance if you are going to talk about the machinery for problem-solving.

When I had my first conversation with Mr. Dobell, I promised him that I would bring only one page as a summary of my notes. I have instead sent along already three documents, and today I am bringing a seven-page single spaced statements, plus two appendices for you to see, a map of all our work in the field and a chart showing the organization of the commission, both in the United States and Canada, and in Windsor, our Regional Office.

What I propose to do is this. I will ask you to follow with me my notes that are before you today, and I will try to get through those quite briefly so that we can spend most of the time on discussion. Of course, when I see Senator Forsey here I am constrained as to how far I allow my imagination to run its course. He will catch me out if anybody else does not.

I thought it wise to put Canada-United States relations in some kind of global context, so the first part deals with that. There I suggest that one of the great paradoxes of our time is the way in which we have so many issues that require multinational or transnational solutions that we must take a new perspective of the nation state itself. I do think it is foolish to pretend that the nation state, for example, Canada, is not a vital and important instrument. I make this statement in paragraph one, where I say that the world therefore needs both viable, innovative states (but not mini-states) and viable, imaginative multi-national institutions. The subtle shifting of balance between them, over time, may be among the most sophisticated challenges for modern international statesmanship. There is the setting in which I want to put Canada-United States relations.

In paragraph two I talk about the great variety of institutions, both global and regional. Some have great clout—for example, NATO, on a regional basis; some have middle clout—for example, the United Nations family; some have no clout at all—for example, the Arab League, which (as a formal matter) has no sanctional power. Here I am drawing up a spectrum for you to see the way in which international and even bilateral relationships have differing degrees of what might be called jural density, or different degrees of legal power.

At the bottom of page one I say that one significant result of this institutionalizing process, in both a political and formal sense, is to give symmetry to interstate relations that would otherwise be heavily asymmetrical—helping to correct the ‘lop-sided’ pattern of smaller powers versus greater powers.

I turn to Canada-United States relations and the founding of the International Joint Commission. These global and regional institutions impinge, of course, on Canada-United States relations, both countries sharing in so many of them. They transcend Canada-United States bilateral relations globally, from the United Nations to the World Bank, and regionally from NATO in security matters to ICNAF in fisheries. Nevertheless, the geographic imperatives of this continent have compelled the fashioning of joint machinery reflecting the Canada-United States fact of physical neighbourhood. I cannot emphasize that too much. Whatever may be the new nationalism, the geophysical fact of our neighbourhood compels a certain relationship. Whether one wishes to call it a "special relationship" or not really does not matter. What matters is that we understand that there is a physical relationship that cannot be ignored, for which we have to find political and administrative answers.

Strangely enough, the growth of permanent Canada-United States institutions does not begin until very late. It does not begin until the beginning of this century, when the International Waterways Commission of 1905 was replaced by the International Joint Commission in 1909-10. It is a paradox that the first important bilateral United States-Canada agency of an independent nature, more or less, with its own secretariat, to manage a Canadian-United States geophysical and commonly shared interest remains not merely the first but the foremost of all the institutions we have created in terms of its power, in terms of perhaps the success in "joint management" it has had in the past 65 years. Next year will be the 65th year of the International Joint Commission's existence, and I think it is quite remarkable to consider its achievements in that time, and to which I will refer to in a moment.

I spend some time on page 3 with respect to the history of the founding of the IJC, and some of the doctrinal problems. I am not going to read that now. It seems to me that the importance of my remarks in paragraphs 5, 6 and 7 on pages 2 and 3 consists in the list of institutions governing Canada-U.S. relations, such as the fisheries—Pacific fisheries,—halibut, sockeye and pink salmon—and the other institutional relationships. These are, in my view, important, but they are very few in number. There is a second tier of relationships which have really no direct administrative power but do a great deal of direct consultation; for example, there is the Permanent Joint Board of Defence.

An analysis of these can be found not only in the paper I distributed to you some weeks ago, published in the Columbia Journal of Transnational Law, but in a very recent paper which I would like to refer you to by Professors Holsti and Levy in the special issue of the Quarterly Journal, International Organization, published in the autumn of 1974 and to which my short today paper alludes. They list about 14 or 15 Canada-U.S. agencies of a permanent nature there. The difficulty with the Holsti-Levy list is that they do not distinguish between those with real power and those that are purely advisory and consultative.

When you come to the International Joint Commission itself, the remarkable thing about the commission, I think, is the way in which it latched on to a permanent mechanism for the solution of the most complex water boundary in the world—and latched on to it by giving it power to make orders of approval binding on both countries where there are applications by or through either government for the construction of works which would affect levels and

flows—the treaty also provided a mechanism for inquiries into "any other questions" that might arise along the common frontier.

The IJC has become experienced therefore not only in its own area but in other areas where it has been asked to make inquiries.

On page 4, I have summarized what I think are some of the main interesting features of the treaty, in paragraph IV, No. 1(a), (b), (c) and down through IV, 2, 3 and 4: Power to make binding orders; public hearings dealing with orders of approval; the pioneer anti-pollution provisions of Article IV; the wide range of investigative jurisdiction of "any other questions" in Article IX; the so far unused power to adjudicate "any question" under Article X; the significant absence of treaty amendments, except for the Niagara and new agreements dealing with Lake of the Woods, Rainy River and Great Lakes Water Quality Agreement of 1972.

From the machinery point of view, a bridge of a very important nature was crossed at the very beginning. This was to be a commission not merely with power but with parity of membership; and all of its boards in the field doing work for it would also have parity of membership. So that here was an asymmetrical relationship between a small Canada, still almost semi-colonial, and a great power, which, together, in 1909 were able to devise a system to create symmetry in the relationships of the two countries in dealing with each other through the theory of equality on the commission and equality on the boards in the field.

This made a great difference to the whole image of the operational relationship between the parties. Size did not matter. Skills and the responsibility of the appointees to the commission and to the boards, and their final responsibility to the commission itself with the commission as a unitary body thinking as a united commission—these meant the difference between fighting *ad hoc* over every stream and river and coming to a consensual, technically sound result in what could have been the most difficult series of problems.

I only have to ask you to imagine, if we did not have the commission and the Boundary Waters Treaty, what it would be like to have to argue over every problem of fresh water along the common frontier—along this most complex water boundary in the world. I suggest to you it would have been impossible under modern conditions to have been able to resolve these problems with anything less than a constant irritation and perhaps more.

Attached to this, I have some figures for you on the staff and on our budget. I do not think, Mr. Chairman, that I want to take up the time of the committee dealing with them now. You can look at them. We have an extremely small staff and a very small budget. In fact, it is almost embarrassing to be asked, "How big is your staff?" In a bureaucratic environment where one often measures one's importance by the number of staff, I must have zero importance in the pecking order. If, however, you measure it by the total value of the system, I have a high pride in the role which the Commission plays in Canada and in Canada-U.S. relations.

I draw some conclusions. These are to be found on page 6 and on page 7. Broadly speaking, my conclusions are that we could not possibly do better today than have what we do have. We probably could not negotiate the treaty today,

to say nothing of getting it signed and ratified in the present mood of Canada-U.S. relations.

More important is the record. Out of 98 dockets over 65 years we have had only one board failing to agree on its studies in the field and in its report to the Commission and only three dissenting opinions or divided opinions in Orders of Approval, in the "decisions" of the commission itself. That is an unusual record for the 98 dockets that we have had. One consequence of our work is that there is a pool of hundreds of civil servants and experts on both sides of the line who have worked together and who know each other, and, though they come from substantive departments, when they wear the IJC hat they feel an obligation to the commission. Even though they do not forget their nationality or their own department, something happens when they sit "collegially" as against the position if they were sitting "adversarily" on behalf of their governments.

I take it that the main lesson of the IJC in the field is that experts from the two countries sitting jointly under a common "umbrella" are likely to reach a consensus rather than if those same experts sat adversarily in a confrontation or severe negotiation posture.

What is the relevance of the IJC experience, therefore, to the totality of Canada-U.S. relations in the future? I have been thinking about this subject for years. Now that I have come to have to manage a small part of Canada-U.S. relations I seem less exuberant and knowledgeable than I used to be. There is something about day-to-day information which creates an unwonted humility, from which normally I do not easily suffer.

But now I have to recognize that I must be careful that techniques which in theory I judged applicable to a range of problems, are in fact so applicable. However, I have no doubt that where one gets issues which have a hard technical core to them, the IJC technique—not necessarily the IJC itself—but the IJC technique of having independent, permanent or quasi-permanent bodies—is a technique which Canada and the United States could explore in other areas with constructive benefit to both sides. It would help to de-escalate many issues which are heavily politicized in this era of the new nationalism on our side and perhaps the new inward looking isolationism, which is sometimes apparent on the U.S. side.

I close, this rather brief presentation hoping that you will look at my paper at your leisure. You may find some things there that I have not said. They may come out in the discussions. But I think that on balance, if I may say so, in a period of destabilization, when the instabilities of Canada-U.S. relations are becoming serious, the International Joint Commission, with its three Canadian and three U.S. members, its sense of unity and unity of operation, with its joint boards and its principles of parity in membership, is a stabilizing and constructive influence. Possibly it is also a constructive example for Canada-U.S. problem solving in other fields.

The Chairman: Thank you very much, Professor Cohen. The questioning will be started on behalf of the members of the committee by Senator Grosart.

Senator Grosart: Thank you, Professor Cohen. Do we call you Professor Cohen, Dr. Cohen or Chairman Cohen? Well, I will call you Professor Cohen. That is the way I have known you over the years.

I am going to start with a very general question, and I hope to come back to more specific ones in a moment. You

refer to your article in the Columbia Journal of Transnational Law. I think you wrote that just about a year before you took on the job.

Professor Cohen: Yes.

Senator Grosart: At that time you suggested that the example of the IJC, having in mind its general effectiveness over the years, might be extended to other fields. I think you said that what was urgently needed—I think that was your phrase—was a joint economic and statistical commission, or series of commissions, which, in effect, would do in these other areas what the IJC has done in the boundary waters area. I remember that this was seriously discussed some 15 years ago, and I think you were in on the discussions as to the possibility of setting up an economic joint commission. It has been said that you have backtracked a little from that position. Perhaps you would give us your views today.

Professor Cohen: I backtracked not a bit from the principle—not a bit. I only backtracked from pretending that I can apply it to a whole range of issues where the degree of political feeling has already made escalation of postures on both sides very difficult to return to some more stable position. A good illustration is, could you negotiate a boundary water treaty today?

When I wrote that article I wrote it with a perspective that did not assume a rate of escalation in the mood of U.S.-Canadian relations that is now taking place. It is a mood which I regret, personally, very much indeed. However, I do not backtrack. I think, with care, one could select issues, from time to time, and one could select a field in which quasi permanent or permanent machinery could be put in place for constant consultation and fact-finding. Common fact-finding is the heart of this thing, common fact-finding, I mean, by groups that have to live together over time under a common umbrella; and I do not see, if one can get the right subject matter in the right time, why it would not apply to such a series of matters, rather than only to fresh water as such.

Senator Grosart: I take it you would prefer, if there was such a commission set up along the lines of the IJC, that it deal with the whole field rather than go back to the idea of dealing with specific issues in this way.

Professor Cohen: It is hard to answer that question offhand. I used to think you could have a straightforward Joint Economic and Statistical Commission for a whole range of Canada-U.S. subjects. I still think it is possible. I am not sure how many of those subjects are includable in the same area, in the same organization. My feeling is that probably, if it does a good job, as we did *ad hoc*, on the balance of payments question it might succeed. We had fights on the balance of payments, and I understand, we solved, them by an annual agreement on the principles by which the officials are guided in determining what the balance of payments would be. If you can do it with the balance of payments, you can do it with a host of other areas where the centre, the core, would be a fact-finding element.

Senator Grosart: Would you talk about the various mechanisms—some of them operative, some of them not—such as the Joint Council of Ministers, which does not seem to be operating, to take a specific example? Would you see a potential for a joint international commission on energy, for example? And if not, why not? I do not say that facetiously, because surely energy is not any more com-

plicated—indeed, perhaps less so—than the boundary water situation was in 1909.

Professor Cohen: Remember, Senator Grosart, with respect, that what gives a degree of permanent credibility to the International Joint Commission, and creates a quality in it which distinguishes it from many other illustrations of a non-boundary character, are the geophysical, reciprocal interests involved. The water is there, crossing the frontier. The air is there on the frontier. You cannot get away from the community interest of the frontiers' impact each on the other; whereas if you are talking about natural resources which are 2,000 miles away, in a pipeline, for example, that takes it across the border, and the pros and cons of having that resource being accessible in that pipeline to the U.S., the issue of propinquity, the issue of geophysical interaction, is not the same as it is along the common frontier.

Senator Grosart: Surely there are very close parallels. We do have trans-national pipelines. You are very much involved now in pollution. I see some close parallels between what you are doing and the whole energy crisis—both political.

Professor Cohen: Let me turn the thing around. If I may speak theoretically now—and, again, I am more inhibited than I used to be—I would hope that there is enough wisdom in Canada and in the United States, despite the pressures of the new nationalism, and political patterns in Canada, to anticipate common issues which are likely to escalate, by at least trying to find a way of agreeing upon basic facts,—if there are those basic facts where essential agreement is possible to determine. The trouble is, the facts often are mixed up with political posturings, and it becomes very difficult. In the case of the illustration you give, it may be too late now to backtrack to the position of two or three years ago, when the mood was quieter, when the energy crisis had not so escalated, and when the sense of "nationhood" was not quite as acute as it is now, et cetera. A time may pass for the correctness of such a solution; it may have to wait for its day again; but with regard to the intrinsic principle I am putting forward, I do not backtrack from it at all.

Senator Grosart: I get the feeling that all you have just said might have been said anywhere from 1909 on about the IJC. It was political, and you had very, very emotional divergent problems at that time.

Professor Cohen: Let me say that I have done a little work in the field of the history of the treaty, and you may be certain that the desire to have the treaty, except for a short period when the great Elihu Root had second thoughts about giving so much power to a joint body, was very strong on both sides of the line. They had four problems in 1907 that were facing them: they had the Niagara; they had the St. Mary-Milk Rivers; they had the Sault—I had four in my list here.

Senator McElman: The Saint John?

Professor Cohen: The Saint John? In 1909? I do not think that was a problem then. Perhaps it was just those three.

You will be interested, Senator Grosart, to know that the first negotiation for the water boundary treaty was spurred on by the problems of the Niagara. The Niagara stimulated it; then they went on to the Sault and the dry west, and the St. Mary-Milk Rivers. So they had these

three very contentious problems, and they were able to say, "Look, let us not settle for an *ad hoc* solution." Elihu Root's idea, originally, was to say, "We will only give the commission power *ad hoc*, and not power generally. We will wait for each case to come up." But they crossed that bridge, and they were able to decide that the issues were bigger than could be dealt with only by *ad hoc* solutions. They said let us get a common semi-managerial instrument to put in place. If you say you think we can still do it today then I say more power to you, but I estimate the mood of 1975 to be different from the mood as it was in 1909.

Senator Grosart: I feel you are almost arguing for it.

Professor Cohen: Well, I would like to see something of that nature tried in a number of areas where it is relevant.

Senator Grosart: Now, if I could come to the matter of the powers and jurisdiction, you mention on page 4, dealing first of all with the power in boundary water matters—the power and the authority which the Commission has to make rules binding on both countries—

Professor Cohen: Where there is an application dealing with matters of levels and flows.

Senator Grosart: Then you refer to the investigative jurisdiction on reference by both countries, and then you say in (e) "The so-far unused power"—and you use the word "power"—"to adjudicate 'any question' under Article X." What is that?

Professor Cohen: The treaty quite remarkably gives to the commission the power to sit as a court on any dispute, "any question", between the two countries.

Senator Grosart: On reference?

Professor Cohen: No, no. Well, the word "referred" is used—but it requires the approval of the Senate on the one side and the Governor in Council on the other before either country can use it.

Senator Grosart: It would be really more a question of jurisdiction than of power?

Professor Cohen: Well, the power to exercise jurisdiction, if you want to do it. And the "want to" is expressed by the getting of permission of their Senate and our Governor in Council.

Senator Grosart: Yes. So, in effect, it would have to be a reference, so it would come more under the investigative—

Professor Cohen: No, it is quite different. Either country may come to us under the Article IX reference, and the words "any other questions" are there. You may say that the words "any other questions" mean any other questions like those in the treaty; but under Article X it is any question between the U.S. and Canada.

Senator Grosart: But your investigative jurisdiction under (d) (in Articles III and IV) in other matters than would come strictly within the definition of boundary waters—

Professor Cohen: Not under Articles III and IV because they deal with other things. Not Article IX questions. Articles III and IV are for orders of approval only. That is where the power is given to us only to deal with levels and flows and these powers have binding effect.

Senator Grosart: That is what I mean.

Professor Cohen: There we have never used Articles III, IV and VIII for anything but water levels and flows questions. Our investigative powers have been used for everything from Port Roberts to Passamaquoddy and so a number of matters outside of boundary waters have been referred to us with respect to investigative power, but not with respect to power to make binding orders.

Senator Grosart: Complementary to that, of course, is the question of sanctions. You and others seem to be very much concerned at the moment about the lack of response of some governments—of both government, at times—to your recommendations. And you yourself, I think, have said that the commission is going to make very loud noises to try to embarrass governments into action. I do not really know whether the last part was added by you or whether they are the reporter's words, but he does quote you as saying that you would make very loud noises.

Professor Cohen: The word "embarrassing" I would have used two years ago, but not now. The idea, however, is the same. The power to publicize its views is clearly given to the IJC in the Great Lakes Water Quality Agreement. The power to publicize its views and recommendations and reports on the Boundary Waters Treaty is not there and some of us think it should be there.

Senator Grosart: Mr. Henry, one of your commissioners, for example, has said, referring to the temporary inaction of governments on your recommendations of two years ago concerning the various kinds of pollution along the border, "If it takes two years to get implementation then, in effect, we might as well give up." That's a fairly extreme statement.

Professor Cohen: Let me say this, it is not without understanding that governments have to take their time, when they get recommendations from us, to exhaust all the implications of the recommendations. What we hope is that the time so taken would now be shorter than it has been in the past.

Senator Grosart: Mr. Ross also says that the commission should be more aggressive and less timid. I do not get the impression, certainly in the last three years, that you have not been aggressive, and neither do I get the impression from your last two annual reports that you have been timid. Do you feel there is any timidity involved?

Professor Cohen: No, but I cannot speak for Charlie Ross, a flinty Vermonter who is his own man, a man of great character, and who is dean of the commission. He has been there now for 12 years. I think, if I may, I shall attempt to paraphrase some words he used at a meeting of the American Society of International Law last April, when we were both on the same panel. I think he means that there are areas where we ought to be speaking out, even if the problems of our power to speak out may be ambiguous, and perhaps the day will come when we will have to speak out. But bear in mind, Senator, that we are wearing two very difficult hats: we wear the hat of a quasi-judicial tribunal as between the two countries; and we also wear the hat of an investigative tribunal as between the two countries. At the same time we must retain the confidence of the departments who have given us their men and the governments who give us their support. They are very difficult hats to wear. We must be candid, and we must think and work as a truly bi-national unitary agency but we must not be so foolish as to make either side feel that we are counter-productive.

Senator Grosart: Do you feel that you might have gone pretty well to the boundaries when you recommended a change in U.S. policy with respect to President Nixon's impounding of the sewage funds? You recommended that he change his mind.

Professor Cohen: There we could see that the timetable for the Great Lakes clean-up on the U.S. side could not be met if the funds were not forthcoming. We had to say so. And if domestic policy in either the U.S. or Canada goes against their obligations in a clear agreement that we are responsible for monitoring, then we have to say so.

Senator Grosart: You have gone pretty far too in criticizing the United States for not limiting the phosphorus content.

Professor Cohen: That is part of the problem. In their sewage treatment plants or nnn-treatment the phosphorus loading was and is too heavy, but we are satisfied that progress is being made. Lake Erie is in better shape today than we expected it to be, and it will be in better shape in three or four years than people could have hoped for four or five years ago. That is our expectation.

The Chairman: I have a supplementary question following on Senator Grosart's about the setting up of a similar commission on, for example, energy. You pointed out some of the distinctions where, for example, the boundary waters are in fact boundary waters whereas an energy source might be a long way from the boundary. One country might wish to have a simple policy that it does not export a certain energy source or form; but would not such a commission be useful, not in setting a new policy for the future, because that is government's function, but in monitoring things already in place such as contracts for the exchange of energy across the boundary, pipelines across the boundary, pipelines in each other's countries being used for transportation purposes and things of this sort?

Senator Grosart: Fact finding, in other words.

The Chairman: Not even fact finding, but in saying, for example, "You are breaching or you are not living up to the spirit of the arrangement you entered into some years ago." One could draw a line of distinction between future policy as opposed to what is now in place. Would not such a commission be useful for that?

Senator Grosart: Except that the IJC is already dealing very much with future policy.

Professor Cohen: Yes. I think your question is a very good one. I would think there would be difficulty, not in dealing with fact finding, as Senator Grosart said. I think there is room for imagination in developing common fact finding on those subjects that have a technical core to them.

When it comes to interpretation of contracts, you are then really forcing the tribunal into a judicial posture. I would not like to see confusion between the fact finding process and the judicial posture of interpreting the contract, unless you consciously knew what you were doing. If you are creating a tribunal to do that, you must really realize what you are doing. You are asking it to say that this agreement between the United States and Canada is a solemn agreement or if it is in the private sector, then it cannot be breached. You are creating a supreme court for the two countries in that particular area for contract inter-

pretation in the private or public sectors. That is a different ball game from fact finding *per se*. I do not say it is impossible, but I say it is a very different game.

The Chairman: Would the setting up of such a commission of necessity be tantamount to a treaty between the two countries? There is at the moment talk of a pipeline treaty between Canada and the United States. Would such a commission not be able to oversee such a treaty?

Professor Cohen: Just as the IJC was for a very logical means for being given a monitoring, surveillance role with respect to the Great Lakes Water Quality Agreement, the actual work and responsibility remains that of the two governments. The monitoring and supervising of the scientific work is being done by the IJC. So you might have a commission monitoring a treaty on energy that the United States and Canada had entered into. However, you would have to be very careful about making sure the situation lent itself to the judicial functions you want to give it, and this is what I am bothered about. You may be pressing Senator Grosart's position too far and my own position too far. I am a great believer in common fact-finding. I am not so sure that if you want to have the kind of judicial process operating between the two countries you are not back to the problems of Article X. My colleague Lloyd MacCallum has reminded me that Article X talks about references for "decisions"—not for "investigations" but for "decisions".

Senator Grosart: Yet the then Minister of Justice, in recommending the treaty to the Cabinet, said it would be another Hague Tribunal.

Professor Cohen: Which treaty?

Senator Grosart: The Boundary Waters Treaty.

Professor Cohen: Oh yes.

Senator Grosart: He said this could be another Hague Tribunal for Canada and the United States.

Professor Cohen: Actually, by 1913 Elihu Root was so pleased with what he had done that he made a big speech to the American Bar Association in which he praised this as an example of the way states should live side by side, to which they can refer extremely complex questions for adjudication. He was sold by 1913. However, on the pure adjudication side, of "any question" for decision, Article X has never been used.

Senator Carter: I did not see this television program, but a few nights ago there was a program about the Columbia River Treaty.

Professor Cohen: I saw the program.

Senator Carter: I remember I was sitting in the other place when this treaty was being worked out, and I remember the controversy that was involved over it. You spoke about fact finding. Apparently, as it turned out, the treaty concerned the fears of one of your predecessors, I think General McNaughton, who was not too much in favour of that treaty, if I remember correctly. Apparently he was overruled. This is what I want to get at. Here was General McNaughton, Chairman of the International Joint Commission, not in favour of certain provisions of this treaty, but apparently his opinion did not prevail. Now, 18 or 20 years later, we find out that the old man was right after all, and what he predicted has come to pass. How would you comment on that?

Professor Cohen: That is a very large order, a lot of which I have forgotten. I used to know a great deal about the Columbia River Treaty, I was involved in the preparation of the government's blue book for the presentation of the treaty to the House of Commons and Senate in 1964. At that time I knew a fair amount about it. I have not looked at the treaty in detail since. As to the debate on the merits, my colleague Mr. MacCallum was General McNaughton's legal adviser at the time and perhaps he can recall the details better than I can. However, just let me make one or two historical points.

First, the reference came to the commission in 1944. The investigation took all those years in the fifties. Strangely enough, for reasons Mr. MacCallum and I were talking about only the other day, quite frankly, no public hearings were held on the reference. I do not think the Board or the Commission held any. No public hearings were held. It was a very rare case, because we are very proud of our record of holding public hearings on a reference, both before the reference begins and at the end of the reference when we have the report of the engineering board in the field. Indeed, the treaty requires it. I did not mention this to Senator Grosart, but the treaty demands it. Apart from the pioneering pollution aspects of the treaty, the pioneer public input aspects are quite remarkable. We are required to hold public hearings before we make recommendations. In the Columbia Reference that never took place, in all those years. Why, I do not know. It was obviously an omission on the part of everyone concerned.

Secondly, the final report of the Engineering Board that investigated all the options from 1944 on was converted into a series of principles in 1959, because the governments were anxious for action. These principles became the basis of the treaty itself. The negotiation of the treaty in 1960-61 was undertaken by the Conservatives. They were defeated in 1963 and for a wide variety of technical reasons, and because British Columbia did not like some of the terms, and for other reasons, the treaty was re-negotiated by the Liberals, and was finally ratified in 1964.

The difference between McNaughton's views in 1959, 1961 and 1964 I have not examined with perhaps the care I should. Suffice it to say, it is my impression that he thought we were not wise in the way in which we agreed ultimately to the Americans having the right to build Libby Dam. In his view we could have had a much better diversion of that water. The deal we gave the Americans under the treaty to allow them to build Libby was something he strongly opposed. I think there were other things he opposed. He did not think we would really need an Arrow dam or storage. Perhaps he may have had another view on Duncan and Arrow, which have caused so much controversy, particularly Arrow, which you saw on the program.

The other controversial question was on the downstream benefits theory. As a matter of fact, the great issue of the downstream benefits, for which he fought successfully, he really took in part from the Americans, who fought the same battle in 1925 over the Saint John River when they argued for downstream benefits. He developed it, to his great credit. This very distinguished man advanced a sophisticated argument, and so we got half the value of the new power from the American plants downstream. That power belonged to British Columbia as owner of the resource and British Columbia discounted it by selling the power, not taking it back, getting an immediate cash value of, I think, \$250 million or \$260 million, which amortized

with interest over time, in their view, was worth about \$550 million.

I think General McNaughton's had other views, particularly on one question, which I never fully understood then, but understand a little better now. He thought the agreement with the United States was largely for storing water on a "ponding" basis, a regular use of that water through generators downstream. A large part of the upstream storage became used for "peaking," which is a more expensive form of power. The British Columbia government made their deal for the sale of the power for cash on a ponding basis, not a peaking basis. This became a serious last minute debate. Indeed, I was involved very slightly in part of the discussion at that stage, as to whether or not Canada was wise in not re-negotiating and insisting on a price that British Columbia should get on the basis of "peaking," not ponding. These are all very technical questions, many of which I am not competent to answer. You heard the program the other night?

Senator Carter: No, I missed the program.

Professor Cohen: There is today among academics studying the question a lot of hindsight. As to whether people in 1964 were wise, it must be remembered that there was a divided jurisdiction. The whole ball game was not in federal hands. The resources were owned by B.C.; B.C. sold its downstream benefits for that amount in cash. The amount in cash eventually was not enough to pay for Mica, Arrow and for Duncan. Arrow now is called Keenleyside Dam. But who could have foretold in 1961-63 that the money obtained then would not be enough to pay for upstream storage dams and generators that were to be built in 1968-70-75? Mica is still not complete. So when you ask me these questions, I must reply: (a) I do not feel competent to answer all or part of them; (b) I have given you as much as I really know.

Senator Carter: What I was trying to lead up to was that here we have an International Joint Commission between two sovereign countries, but apparently in this particular case the province or the provincial premier at the time was able to influence the decision of the joint commission so that the recommendations of the joint commission and the wishes of the federal government were, to some extent, countermanded. They were not able to put into effect what they felt should be done at the time because of the influence of the provincial premier or the provincial government of that day.

Professor Cohen: If you are asking me the question of whether the engineering arrangements would have been different if B.C. had not been involved, I do not know. Perhaps Mr. MacCallum knows whether there was a specific difference of opinion on the engineering arrangements with respect to which B.C. put pressure on Canada.

Mr. Lloyd MacCallum, Legal adviser, and Assistant to the Chairman, International Joint Commission: Very considerable.

Professor Cohen: What would have been the difference?

Mr. MacCallum: I should like to go back just a little, if I may, Mr. Chairman. The commission, as a commission, recommended principles to both the governments on which they ought to proceed to negotiate a treaty. Included among those principles were a number of basic decisions which would be made by each of the governments them-

selves, not together but by themselves: the upstream country, Canada, would determine where they were going to store the water, what arrangements they would have that would best suit their purposes, and what plants would go in first so as to get the benefit of the "first-added" position in accumulating downstream benefits. It was left to the governments to determine that. The commission did not make that determination. The commission indicated a number of options and alternative arrangements. It was left to British Columbia and Canada to work out on a political-technical-engineering basis the combination of projects which, they thought, would produce the greatest benefits for Canada. That had nothing to do with the international implications. Federally and provincially there was a real dog fight which went on at that particular time with respect to British Columbia's water resources. British Columbia had its own idea of how it wanted to develop them or whether it wanted to develop them at that stage, or whether it wanted to develop the Peace River first et cetera. That is where the weakness came in. General McNaughton, not as part of the commission but as General McNaughton, an individual, both during his term on the commission and afterwards, had very strong views as to the proper decisions that Canada and B.C. should take within their own territory. But that was not a commission responsibility. That was in arranging the location and sequence of the projects, domestically. The governments, for their own good reasons, or bad, determined on a particular arrangement which General McNaughton thought was not the best. But this was a difference of professional and/or political opinion.

I could not help thinking, when you referred to that program, that probably here is a good example of where some joint fact finding would be a most desirable thing, because it depends on whom you speak to as to what it is thought General McNaughton's views were, and whether they have been exonerated or not. The fact is that the Columbia River Treaty has not lived up to all of the expectations for it; but a lot of different people had a lot of different expectations, and I was speaking to some knowledgeable people in British Columbia just last month and they said, "it's not so bad, after all." It depends on whom you speak to. I am not sure that one view or the other has been either discredited or exonerated.

Senator Carter: There is another question, about the Garrison Dam.

Professor Cohen: The Garrison Diversion, yes.

Senator Carter: What is your commission doing about that?

Professor Cohen: We have no jurisdiction in the matter yet at all. We do not have any power to act on potential trans-boundary pollution questions on our own motion, based upon the interpretation of the treaty to date, and we will not until either or both governments ask us to do so by way of a reference. We are, therefore, sitting in readiness. If the governments wish our services, we are there. There was a public statement to the effect that at a recent meeting, on January 16, the U.S. and Canada decided that they would either use the IJC or and *ad hoc* technical committee to see what the problems were.

Senator Carter: So it does not come before you unless they make a reference to you?

Professor Cohen: That is right.

Senator Carter: Does your jurisdiction extend only to fresh water boundaries?

Professor Cohen: Yes. It would be stretching the treaty beyond even the occasional liberal interpretation I allow myself at night-time to think that it goes beyond the fresh water systems along the common frontier, both boundary and trans-boundary, in Alaska as well as the regular frontier, the Canada-U.S. mainland frontier.

Senator Carter: Thank you.

Professor Cohen: So we have no jurisdiction in salt water.

Senator Carter: You could not use Article X, then?

Professor Cohen: Oh, yes; were there to be a dispute on any question which the U.S.-Canada wished to refer to IJC under Article X, of course.

Senator Carter: But only if it was referred.

Professor Cohen: Only if it was referred for a decision, with the approval of two-thirds of the U.S. Senate, as if it were a treaty, and with the approval of the Governor-in-Council.

Senator Carter: What is the main problem which your commission is occupied with now at the present time?

Professor Cohen: Perhaps you might like to take a look at the large series of matters I have listed for you in that table of all the boards. Look at the second appendix after page 7, which is entitled "Reporting by International Boards." If you look at that list you will see what very extensive problems we face. First, we have boards of control. Those are the boards which are in place to regulate the level and flow of a given river or lake where there has been an order of approval, and the board is there to carry out the conditions of the order of approval. One of the most important is the St. Lawrence River Board, regulating the level of the Great Lakes in parts and Lake Ontario and the St. Lawrence River. The other boards of Control are the Niagara, Lake Superior, St. Croix River, Prairie Portage, Rainy Lake, Lake of the Woods. Lake of the Woods is strictly not our board and it should not really be here. It is appointed by the two governments and reports to us. Then we have the Souris River, St. Mary and Milk Rivers, Kootenay Lake, Columbia River, Osoyoos River, Skagit River and Champlain. Some of these boards are relatively inactive, but most of them are active and the most active of those at the moment is the St. Lawrence River Board of Control.

Then we have the pollution advisory boards. They are the St. Croix River Pollution, Rainy River Pollution, Red River Pollution and Air Pollution Advisory Board. In this last we have a general mandate to report to both governments on any pollution problem brought to the Board's attention along the whole of the frontier. Therefore, we have a kind of interacting mandate on pollution, water and air, one much clearer than the other. The machinery for the air monitoring is, of course, highly dependent upon what reports are given to our Advisory Committee, the members of whom are members also of the substantive departments of government from which the information comes.

The Great Lake Water Quality Agreement is, of course, one of the largest single enterprises we have: the clean-up of the Great Lakes. There are four important bodies there. As you can see, there is the Great Lakes Water Quality

Board, the Great Lakes Research Advisory Board, the Upper Lakes Pollution reference group and the Land Use Activities group. There is a Working Group on Dredging, which is indirectly related to our activities, but the governments are handling it bilaterally, even though we get their reports. They do not report, of course, directly to us, but we get information as to their activities. Finally, as to the on-going present investigative board on the Champlain-Richelieu we are in the middle of writing a report on it.

American Falls. We are about to hold public meetings on the future safeguarding of American Falls, which may involve further hearings on the whole environmental future of the Canadian and American falls area.

The Great Lakes Levels is the most comprehensive and elaborate study we have had, perhaps, since the Columbia River effort. It took nine years for the board to complete its study of the whole question, "Can you further regulate, to advantage, the Great Lakes?" We are just now in the process of beginning to write our report.

The Roseau River. This took 40 years to come back to in southern Manitoba and northern Minnesota to determine how that river can best be dealt with to the advantage of both countries. The Board's report is now in the process of being completed.

The Souris and the Red River. There is a standing inquiry on its future which may involve, if we get the Garrison as a reference, problems of a related nature.

With regard to Point Roberts, of course, as you are aware, we are in the midst of considering our report and recommendations but we are by no means near the end of the task.

St. John River is not really ours, but that is a NATO sponsored project, which a Canada-U.S. committee is about to make a report on to the IJC and the effects of which will eventually be felt by the IJC if it takes on the later stages of further inquiry into this matter.

So you see the range is immense.

There is nothing at the moment on the Alaska-Canada frontier, surprisingly. There may be issues however that will arise in the future that are only now beginning to develop, because of the activity up in that area.

Senator Carter: Speaking of the water levels, I remember a few years back — it may be seven or eight years back — that there was some concern that the water levels were getting quite low. Has that been corrected? Is that coming back?

Professor Cohen: You are speaking of the Great Lakes levels?

Senator Carter: Yes.

Professor Cohen: The irony of our present report after nine years' study, is that the investigation began at a moment of low water and ends at a moment of very high water. The whole perspective of the engineering board inquiry had to be altered in mid-water, as it were. Indeed, the purpose of the inquiry was to find means of correcting the dangerous, low water situation in 1964, and we are ending our inquiry with a period of perhaps the highest water in 100 years. So you can see the difficulty. Finally, the Board's report said very frankly that on a cost-benefit basis it was not worth while to try to build the engineering works to regulate further the levels of the Great Lakes, unless we do things that are very costly and/or have more

studies, in any case, to know how far we can go with additional regulation.

Senator Carter: Do you have anything to do with the lamprey problem?

Professor Cohen: Not as such; but we are developing, slowly, some relationship with the Great Lakes Fishing Commission, which I believe began as a body primarily responsible for the lamprey.

Senator Cameron: Do you see any new problems building up in the future, say within the next ten years, that are going to require a good deal of study and action in the immediate future with respect to the boundary waters?

Professor Cohen: Senator Cameron, in my paper today, and in the seminar summary, you will see a reference to a conception which is increasingly emerging in our minds, that the boundary is no longer simply a boundary made up of boundary waters and trans-boundary waters. But now with air pollution and land uses that affect water pollution and air pollution, you have what I call an environmental/developmental complex—an interaction of air, land and water all along the common frontier. That changes the whole perspective and the dimension. No one could have foreseen in 1909 this complex of interactions. We would be very unwise in the Commission to close our eyes to this on-going interaction and what it means for Canadian and U.S. interests along the common frontier. At the same time, we would be even more unwise to go so far beyond our existing expertise and jurisdiction as to invite criticism to the effect that we are dealing with matters where we do not have either jurisdiction or expertise. So we are an important transitional period in our work. The hard core of our work is what gives us credibility and integrity. That must not be lost. Equally, our credibility will decline if there arise problems tangential or related closely to this core, of which we remain in ignorance and do nothing about.

Senator Cameron: Well, do you think that in view of the increasing interest and concern with environmental matters, it may be desirable either to set up a special commission, or a special section of the existing IJC, to deal with environmental matters?

Professor Cohen: Senator Cameron, we are in the environmental business now. The Commission is becoming increasingly environmentally oriented in all of its thinking. There is not a commissioner who is not aware of that, not a staff member who is not gearing his mind for that, and not a budget item which does not take that into account in staffing and in our future planning; so we are very much aware of it.

Senator Cameron: I am sure you are, but is there any need for new machinery in this area, machinery that does not exist at the present time?

Professor Cohen: I do not think so, with respect to the common frontier. I think there is a need to think through how the IJC machinery can be improved in the service of both countries.

My colleague reminds me that the Great Lakes Water Quality Agreement has led to the creation of the Regional Office of the IJC, which is bigger than the IJC's office itself, in terms of servicing the four main Great Lakes Water Quality Agreement boards. They are profoundly environmentally oriented.

Senator Connolly: I apologize, Professor Cohen, for not having been here earlier, because I know I missed a very fine presentation, but I will read it.

I just wondered, arising out of Senator Cameron's question, whether the existence now of a Minister of the Environment in the federal government would mean a good deal of input and help for the work that you must do on the frontier, which I suppose would be supplemented both ways, both by you and by what the department would do.

Professor Cohen: Oh, there is no doubt in the world that we have been, right from the beginning, Senator Connolly, and always will be heavily dependent for our field work and our basic scientific engineering on the input from the substantive departments, of which the Department of the Environment is one of the most important. We have the closest links with them, on the substantive level involving, the scientific and engineering side, as we do in fact with External Affairs on the diplomatic and political side. Here we have the very intimate relations, and yet these can be so very difficult, because we must keep all departments at arm's length, in case we have to sit in judgment on them. We must, however, keep their confidence, in the hope that the Department of the Environment, the Ministry of Transport, the Department of Energy, Mines and Resources, and the Department of Agriculture will at all times give us the men we need. All of these are departments to which we turn for the 27 boards you have seen in the field, and if we had to budget for them ourselves, Senator Connolly, you would see what a different more difficult ball game it would be.

Senator Connolly: What about provincial governments?

Professor Cohen: We are very close to many provincial departments, and in particular the Government of Ontario in the matter of the Great Lakes, but, of course, to other governments as well. We get their full co-operation when we need people, and indeed, the umbrella of the IJC turns out to be an extremely good umbrella for Canada as far as federal-provincial relations are concerned. There are no difficulties whatever in our dealings with the provinces, or in dealing with the Canadian federal departments. We really could not exist without them.

Senator Cameron: With the explosion of population in California, for example, and the western states generally, the demands for water are increasing at tremendous rates, and there is some concern in the west about the drain on the water resources in the Rocky Mountain trench. Are you aware at the moment of any special studies or machinery that has been set up to look into that particular problem in that area?

Professor Cohen: Nothing in the IJC family of homework is at all concerned with that. I know just what the average person reading the press knows about it, but it has never become a serious matter for the IJC. Has it become such a problem in your time, Lloyd—that is, the turning around of waters from the Athabasca-Mackenzie basin, southwards through the Rocky Mountain trench?

Mr. MacCallum: Not for the IJC, in any sense, but we are aware that governments in Canada have been taking stock of what water resources there are, and potential Canadian uses for the future. It is purely a domestic problem at the moment. I think the United States has not asked for the water, and Canada has not offered it; but there has been a stand-off while everybody finds out if there is anything there, in case it should become an issue—

in which case it might be referred to the IJC for recommendations.

Professor Cohen: How important this question is, Senator Cameron, that you raise, is emphasized by, I think it was, Professor Leslie Brown, who said that the next great crisis of mankind would go from energy to food to fresh water; and with Canada allegedly having one-sixth of the world's fresh water, and the Great Lakes basin itself being one-sixth of the world's fresh water in the U. S. and Canada, even one-fifth, we have an enormous asset here which must be husbanded and nurtured to our interests, both nationally and bi-nationally.

Senator Grosart: Somebody has said that it may become our most valuable export.

Professor Cohen: It certainly is premature to talk about exports at this stage, but as a resource it is of incomparable value to both countries.

Senator Cameron: It seems to me that the conservation of the water in the Rocky Mountain trench and its export is going to be one of our major problems in the years to come.

Professor Cohen: At the moment, following Mr. MacCallum's remarks, there are absolutely no indications in the commission of a formal national or international interest in this matter.

Senator Grosart: Some American governors have made some fairly emphatic statements about Canada hoarding water.

Professor Cohen: I am just not competent to judge the engineering or ecological consequences of this.

Senator Cameron: There is an organization in California dealing with this matter. I cannot think of its initials at the moment.

Mr. MacCallum: NAWAPA. Those are the initials of a plan worked up by a large engineering company on their own time.

Senator Cameron: That is anticipating what will happen in the future.

Professor Cohen: Yes. I see the Russians in their north have used an atomic weapon to turn around a river that was going into the Arctic so that it now goes south, but nothing like that is within our purview.

Senator Connolly: I know that this has nothing to do with the IJC, but because of the proximity between the two countries and the problems that arise with a common border, is there anything you can think of in the future that might give rise to a similar organization in the north with our neighbour there?

Professor Cohen: You mean in the Arctic Basin. Can I take off my IJC hat now? Years ago I used to believe that the logic of the geography in the Arctic Basin was the development of an Arctic Basin family of nations, at least for consultation and scientific co-operation. I do not know what has happened to that thesis. It was shared by a lot of Arctic specialists at the time. I am told that in Norway this summer there is to be a conference of most of the Arctic Basin countries to discuss a possible Arctic Basin Council, but I am not as close to the subject as I used to be some years ago. Certainly the logic of our position in the Arctic

would dictate maximum scientific co-operation with all our Arctic neighbours.

The Chairman: If other senators have no questions to ask I shall start on the second round with Senator Grosart.

Senator Grosart: I notice you address your reports to provincial and state governments as well as to the two federal governments.

Professor Cohen: Only when they are involved as they are in the Great Lakes Water Quality Agreement. There is one province that is a working member under the agreement, Ontario, and there are eight U.S. states as well as the two federal governments, so they are the recipients of the reports.

Mr. MacCallum: They were not signatories—only the two federal governments. Ontario and the eight states participated very actively, but the agreement specifies that the commission will report to the parties, that is the two federal governments, plus the Great Lakes state governments, plus Ontario.

Senator Grosart: Does this apply only to the Great Lakes Water Quality Agreement?

Professor Cohen: That is right. In that case we have a formal obligation of dealing with the provinces.

Senator Grosart: What kind of formal obligation is this? Is it in your terms of reference? What is the case where a province or a state is not a signatory to an agreement?

Professor Cohen: But where they are participants. Ontario specifically is mentioned as a participant.

Senator Grosart: And a signatory?

Professor Cohen: No, not a signatory to the agreement.

Senator Grosart: Can you give us the difference between an agreement and a treaty? This is an agreement, but the Boundary Water Treaty, of course, is a treaty.

Professor Cohen: It is a treaty because it went through the most formal demands of treaty-making known to international law. It met all the requirements of a formal obligation by the Constitution of the United States and the then Constitution of Canada. In the United States that meant that it had to have the consent of two-thirds of the Senate, and that is why the earlier St-Lawrence Seaway treaties all failed because they could not be sure of the required two-thirds U.S. Senate approval. In the case of the Great Lakes Water Quality Agreement, as described in the United States Constitution, it is really an executive Agreement. That is because it only required executive action by the President. In the case of the St. Lawrence Seaway you have quite a remarkable situation because there for 40 years we discussed a great treaty which never came to pass; but it eventually developed by a simple exchange of notes between the two sides, with unilateral legislation on both sides and all related to approvals by the IJC. There was order of approval by us in 1952, amended in 1956, so you get all sorts of gradations; and in the laws of treaties, Senator Grosart, the experts have delineated everything from treaty, strictly so-called, to agreements, protocols, et cetera. Some meet the most formal tests and others are as simple as an exchange of notes.

Senator Grosart: Has an agreement any more jurisdiction in domestic law than a treaty?

Professor Cohen: In the United States, yes.

Senator Grosart: But in Canada?

Professor Cohen: No agreement signed has any degree of domestic formality or becomes part of the domestic law of Canada until that agreement is implemented by the duly appropriate authority, whether federal or provincial. That is one of the problems of Canada's constitutional-international law. Some agreements we execute internationally we cannot implement domestically because of constitutional doctrine. In the U.S. they have what are called "self-executing treaties", of which the Migratory Birds Convention as between the United States and Canada is a classic example. There I believe the Supreme Court of the United States held in the case of *Missouri versus Holland* that that treaty was self-executing, which meant that Congress did not have to pass any law at all, and overrode any state law dealing with the matter. It became *per se* under Article III of the United States Constitution part of the supreme law of the land. We have no such doctrine in Canada. Every time we sign an agreement, to make that agreement part of the law of Canada it has to be implemented at either the appropriate federal or provincial level.

The Chairman: When you say "appropriate", you mean by legislation?

Professor Cohen: Yes.

Senator Grosart: Well, as you may remember, I was Carnegie Fellow of International Law, so that is not news to me.

Professor Cohen: You must not get me started, because otherwise I shall think I am back in the classroom, which I had almost forgotten.

Senator Grosart: Well, I heard you in the classroom once. It has been said that some difficulties have arisen over the fact that the U.S. co-chairman of the Commission is an employee of the State Department. Has that inhibited the activities of the commission at all?

Professor Cohen: Well, first of all, it is a matter of considerable delicacy for me to discuss my co-chairman.

Senator Grosart: Taking the principle rather than the person.

Professor Cohen: I would say that in the history of the commission the chairmen of both the United States section and the Canadian section have been men independent of the executive branch of our respective governments. In the present instance there is the temporary situation in which the American co-chairman finds himself also holding down an executive Branch appointment; but I wish to assure you, Senator Grosart, from all I have seen, the character and the strength of will exercised by my co-chairman have been of the order of magnitude to let him be at arm's length from his own department whenever issues have arisen that might otherwise, in the case of lesser men, have put them in what would appear to be a conflict-of-interest situation. In theory, what I say, describing the office of the chairman is correct. In practice the character of the man may be more important.

Senator Grosart: Did you hold public hearings on the Point Roberts case?

Professor Cohen: The Point Roberts public hearings began before I came in. The commission went out there

and held hearings, which perhaps Lloyd MacCallum could describe.

Mr. MacCallum: I am not sure how to describe it.

Senator Grosart: I ask that question, because I think it was the Vancouver *Sun* which said that the International Joint Commission "blew it." I think that was the phrase they used. It was because of the local opposition which destroyed what appeared to be your very fine recommendation.

Mr. MacCallum: We had public hearings. Our investigation is not yet finished. We are at a point in our investigation where we have concluded that there is no way of solving these problems until there is a sort of basic agreement at the local level, provincial and state, as to the degree of accommodation that each is prepared to extend to the other. In the absence of some accommodation there is no solution. We cannot impose that accommodation, so that the present state of things is that the parties immediately concerned, state and province, each of which has some studies in progress, have been asked to consider together the degree of accommodation they are willing to consider and accept if the commission so recommends.

Professor Cohen: I wish to add one point to that, in fairness to the commission. No one should think for one moment that the commission is bowing out of its responsibilities at Point Roberts. All it is doing at the moment is waiting to see about stage two of our work—stage one being the board's recommendations, stage two being our second series of recommendations, which require Washington and British Columbia to get together to see if they can work it out, how the parties might resolve that recommendation. If they do not, the IJC will be fully back in the picture.

The Chairman: For the record, that is Washington State?

Professor Cohen: Washington State.

Senator Grosart: This would be a case where, if it had been a boundary waters case, under Articles III and IV, you would have been able to impose a decision.

Professor Cohen: If it were a boundary waters case here our recommendations could have been binding. They are not binding in reference matters.

Senator Grosart: Other than the European Community, can you think of any other outstanding case where a non-government board, a non-political board, can in effect legislate or impose its decisions trans-nationally on governments? The European Community is not quite comparable, because it actually legislates.

Professor Cohen: Mind you, there is very great power in their Commission. If you look at the powers of that Commission—that is one of the three important constitutional segments of the European Economic Community—the commission has very great authority to give orders of a kind that are binding upon member states within certain parameters delegated to them, both by treaty and by the Council of Ministers. Without getting into an involved discussion in an area on which I am not entirely up to date, that is at least a partial analogy. In the water area, of the 10 or 15 comparable boards on the Scheldt of the Rhine and on the Danube and elsewhere in Western and Eastern Europe I do not think any one of them has quite the authority of the International Joint Commission.

Senator Grosart: What about the fisheries conventions?

Professor Cohen: There are analagous commissions throughout the world. One can think of the halibut and the pink and sockeye salmon; they differ in degrees of authority. ICNAF, for example, sets quotas and so on, and has policing powers. There are analogies throughout the world in these things. There is the pelagic sea convention. They pioneered, Canadian, British, United States, Russian and Japanese ventures in the area of high seas fishery management, in the case of Halibut Salmon and pelagic fishing (fur-bearing seals). If you are asking if there are any other international examples of that, I would have to look at the books very carefully, but these certainly were ahead of their time.

Senator Grosart: My impression is, it is a very remarkable thing, having in mind the success of the IJC in this field over a period of 60 years—

Professor Cohen: Sixty-five years.

Senator Grosart: —that the idea has not rubbed off on some other confrontations.

Professor Cohen: That is a very good question. I think, in fairness to diplomacy, they have their problems to deal with the political mood of the day. Undoubtedly leadership at any given moment in time in Canadian-American relations could have reached other solutions by way of institutional arrangements, but they did not do so. Who missed the boat or why it was missed, I do not know. Is the boat yet missed? These are good questions.

The Chairman: Professor Cohen, you were saying you feel the treaty under which you operate, passed in 1909, was attainable then but might well not be attainable today between Canada and the United States, or between other countries.

Professor Cohen: I do not quite say that. I do not want to talk about other countries. Given our present mood, the principles involved, the process of negotiating those principles and the process of ultimate parliamentary ratification would present difficulties.

The Chairman: It would be more difficult.

Senator Grosart: I presume one of the reasons why the Boundary Waters Treaty was possible was the multiplicity of problems. There were not merely the four you were talking about, but there were others in the shadows, as you indicated.

Professor Cohen: Quite.

Senator Grosart: You would think possibly the greater the problems the more need for this kind of structure between Canada and the United States to solve them. I am coming back to my first question.

Professor Cohen: I think one should remember that, as my colleague Lloyd MacCallum reminds me, the Boundary Waters Treaty represents an important, if modest, cession of sovereignty by both countries to this particular commission in a particular area where it can make binding orders that are an obligation on both parties. It takes a certain amount of political courage to do that, and to do it in 1975 in areas where the issues are more complex, where the moods are different, where the political setting may not lend itself easily to it, presents another kind of dialogue. It does not mean, however, that it is impossible. It does not

mean that we should not be thinking about it. I believe firmly that the most important area of political imagination in Canada-United States relations is to determine the best means of stabilization and the reduction of destabilization.

The Chairman: Professor Cohen, I wonder if I might go back for a moment to the list of boards you were referring to a few minutes ago and ask you to give us an outline of how these boards are appointed, of how many members are on them.

Professor Cohen: The number of members are there in the table; there are the figures beside them of the Canadian members.

The Chairman: How are the members selected? In other words, could you tell us the structure of these boards? Are they wholly a creature of the commission?

Professor Cohen: What I will do is, I will ask Mr. MacCullum to speak to that. I know a good deal about it, but he has been there now since 1952 and has seen the boards in all aspects. I would be glad to have him speak both to the technical composition and, much more important, to the tradition and spirit in which they operate.

The Chairman: I also have a note here on the quality. How do you maintain the quality of personnel at a high enough level to ensure that they are performing their function effectively?

Mr. MacCullum: If I may, I will start at the bottom of the summary page, rather than the top, and talk about the investigative boards. When the governments refer a question or problem to the commission for investigation, the commission looks at the nature of the problem, considers the expertise available in the government departments in Canada and the United States, where are the departments with responsibilities in this area, and consequently where you would be likely to find the level of expertise that would be most useful to the commission. We then determine the nature of the investigative board that will carry out the investigation for the commission, and determine the size that will be needed, how many departments do you have to have reflected in that board in order to get the work done that is going to be required in the investigation, because the members who are appointed to the board then have to go back to their departments which employ them, to persuade them to incorporate into the departmental programs the necessary studies that are required for the commission. This is part of the commission's method of operation because it does not have a large budget of its own to finance these studies; it has to get the studies done by the departments and agencies in the several governments.

The Chairman: You have answered one of my questions already; that is, that the personnel on the Canadian side of these boards are interdepartmental people rather than political appointees.

Mr. MacCallum: That is right. The commission, having looked at where the expertise is and what departmental support there might be, then tries to pick the individuals who, in its opinion, after consulting people in the departments and everyone it can, are the ones most appropriate—senior enough but not so senior that they cannot give attention to the work and this sort of thing—to appoint to the board to carry out the study. Then the board may

consist of a total of two, four, six or eight, depending on the magnitude of the study.

Having made that selection as to who we would think would be appropriate, we then approach the deputy minister of the department and say, "We have had this reference from the government and the government has said we may have the services of specially qualified people to carry out the study. We have selected this man from your department, and we request that you make him available to serve on this board." And the co-operation is very good. It is very rarely indeed that the deputy ministers or agencies turn us down, and it is always for a good cause—because the man is otherwise occupied. We use the same procedure on the United States side.

The men, however, having been chosen that way, are then told that they serve in their personal and professional capacities and not as representatives of the agencies or departments from which they are drawn. That may sound like theory, but as a matter of fact it works out well in almost every case where these men, sitting "collegially", to borrow Professor Cohen's word, as a body, rise above, in their professional capacity, the policies or the constraints that might be imposed upon them by departmental policies or departmental programs. Their job is to come up with the best solutions to these problems, regardless of what existing governmental policy or departmental policy or departmental rivalries might be. The boards then give us progress reports as they go along. Then, after they have completed their study, they give us a final report in great detail which we release to the public, at which time the government departments or governments themselves can take pot shots at what their men have come up with. The departments of government are not committed in any way by the decisions arrived at by the men whom they have provided.

The Chairman: Are they primarily fact finding?

Mr. MacCallum: They are primarily fact finding, but in a professional sense there are conclusions which flow from the facts. There is room in most cases, even in the engineering profession, to draw different conclusions from any given set of facts. So there is an element of judgment which enters into the thing. That is the investigative role.

Boards of control are appointed to ensure compliance with the terms or conditions of orders of approval that the commission has issued. For instance, the first one listed is the St. Lawrence River Board of Control. That is a board made up of four Canadians and four Americans, which ensures that Ontario Hydro and the Power Authority of the State of New York, who are the ones who operate the great dam down at Barnart Island, comply with all the terms and conditions which we laid down in our order of approval as to the levels to be maintained on Lake Ontario, the flows to be released down the St. Lawrence, cutting flows to form ice and all the complicated technical matters.

The Chairman: Those are on-going boards.

Mr. MacCallum: Yes, those are on-going boards. And on that board we have two federal people, one from Environment and one from Transport, one from Ontario and one from the Province of Quebec, because there is an upstream interest and a downstream interest, and there is a technical interest on the river in terms of navigation.

Senator Grosart: How do you deal with an infraction or delinquency in terms of the order of approval?

Mr. MacCallum: Oddly enough, that problem does not arise very often. In my recollection, whenever it has arisen it has been of a minor nature which is reported quickly to the commission. Out in Kootenay Lake, for instance, they watch very closely the levels on Kootenay Lake which are regulated under our order. As soon as there is a deviation of even a small fraction of an inch it is reported by the board to the commission, and the commission then communicates with the people who operate the dam, and the commission says, "You missed here." And we investigate to make sure that it is inadvertent and not deliberate. If the consequences are slight, and so far they always have been, that is the end of it. But the operators are aware of the fact that we are watching on a day-to-day or week-to-week basis what they are doing.

Senator Grosart: Your sanction is not questioned?

Mr. MacCallum: No. You might think it would be, but not so. The ones who build the dams and the ones who operate the dams "play ball."

Professor Cohen: It should be remembered, Senator Grosart, that what you raise is a very sophisticated question in some ways, namely, the kinds of sanctions available even in the areas where we have binding orders. We have no sheriffs or police force. We are a bi-national body. The sanctions really operate: (a) from the legal image of what we do as a bi-national agency; (b) from the engineering necessity and credibility of the conditions we lay down to make the system work—the proper levels and flows, et cetera; and (c) the possibility that in the event of a sustained violation by any of the parties to an order, we would then sit in commission and determine that there was a violation, look at the interests that were injured by the violation—for example, letting too much water out and thus unnecessarily damaging by flood downstream. And under Article VIII, to protect the injured persons we have a right to be seized of the matter and to order an indemnification and compensation. You might ask the next question: How do you enforce your orders of indemnification and compensation? If you look at the act which set up the commission in 1911, and which was reproduced in the Revised Statutes of 1970, you will see that the Exchequer Court, now the Federal Court, is the court to which general jurisdiction is given with respect to IJC matters.

True enough, it is rather difficult to read everything I say into that Act in this statement that I am making, and we have never had to do so, but I would imagine that if the time ever came when the IJC as a body had to look juridically at a disobedience, it might invite the Federal Court of Canada, as the Exchequer Court is now known, or the appropriate federal District Court of the United States to determine the meaning of this particular order it gives. We have never had to do so. Conversely, it is a grave question whether or not we ourselves could ever be impaled in a U.S. or Canadian court. I do not think we can. The question you raise is a most difficult one, and we do not duck it, but we have not had to face it, as yet.

Senator Grosart: I asked the same question of a corporal on the Green Line in Cyprus, pointing out that on one side they spoke Greek and on the other side they spoke Turkish. He was with the "Van Doos", most of whom spoke French with some English. He said, "Well, I just send a man over. He just looks the offender straight in the eye and says, Cool it!, and he does."

Professor Cohen: We do almost the same thing.

Mr. MacCallum: In response to Senator Grosart's question, as a practical matter, if there was a failure to comply with a condition of the order and it was continuing, the first thing we would do would be to report to the government that one of the conditions on which we gave our approval was not being complied with on a continuing basis, and so, as of that moment of time, they no longer had the approval of the IJC for this operation. And the treaty commits the parties to saying they will not permit this to go on except with the approval of the commission. As I say, we have never had to do it, but, short of going to court, that is a possible approach we would take, thus throwing the onus back on the governments to straighten it out. I would like to emphasize, however, that these men are not chosen by the departments to represent the departmental interests. They are chosen on the basis of knowledge, experience, professional expertise, and their ability to do the job that is required in the supervision of these orders of approval, and similarly all the way down the line. Some of the boards are very small. The largest is the St. Lawrence, which has eight members. Their job, however, is to make sure that what the commission says shall happen, in fact does happen, and to report constantly to the commission as to developments in the area that might change the relevancy of the conditions that have been imposed.

Senator Grosart: Mr. Chairman, this general failure, in circumstances where a lot of money is involved, to challenge the sanctions seems to me to be a very remarkable part of the history of the commission. Because of my interest, particularly, in seeing this kind of thing done more often in Canada-U.S. affairs, I would like to ask you to what you would attribute this failure to challenge the sanctions. Do you really expect all sorts of injunctions and so on?

Professor Cohen: Two things happen, Senator Grosart, if I may leap into that area and let Lloyd follow on. In the first place, the machinery of the judicial process in both countries would be very difficult to mobilize in this area, on the grounds of the general status of immunity which I think the IJC has in the courts of both countries. There was an effort by the town of Boucherville to implead the IJC for the flooding that took place in recent years. That was struck out and ultimately withdrawn as part of the pleadings.

The Edison Soo Company is suing the Corps of Engineers in the United States Court of Claims for a loss of power because of certain regulations that took place at the Soo pursuant to an order of the IJC given under very special emergency conditions. The defence of the United States government on behalf of the Corps of Engineers undoubtedly would need to refer to the IJC orders given under these emergency conditions. The court will have to pass on the adequacy of that defence. I cannot prejudge that, but it is only now that we are beginning to see the shape of some of the very questions you are asking. However, the larger issue you raised is the correct one, namely, that no one has tried to involve us in a whole legal exercise, and I think the reason is the mutuality of interest in carrying out our orders. The orders represent a scientific, engineering policy consensus at the board level and at the commission level, and ultimately, therefore, it represents the best interests of both countries, to the best of the knowledge of the people concerned—human beings, fallible as they are—and doing the best job they can.

Out of the 98 dockets, we have had one divided board in the field, and three or four divided or dissenting opinions

at the commission level, in the course of 65 years. A remarkable record.

Senator Grosart: What is the basis of the validity of a decision—an order of the board—where the board is not in full agreement?

Professor Cohen: So long as it has a majority, it is a commission decision, and so long as there is a quorum, and I presume under our Rules the quorum would be four out of six of us sitting. There are technical questions that arise, and I will not bother you with them, with regard to the changing of the membership at the time we are sitting, and so on, but it would be a valid order if there were a quorum which gave its majority approval accordingly.

The Chairman: Professor Cohen, I have one area that I would like to explore a little further with you before we close, and that is connected with the very important matter raised by Senator Grosart in the first place.

Your commission has had extraordinary success now for 65 years, during a period when the multiplicity of problems across the boundary between Canada and the United States has increased very greatly, yet we are still using the same instrument without having expanded its powers, which is, I would think, a great credit to it.

Professor Cohen: Except for the Great Lakes Water Quality Agreement.

The Chairman: Yes. The history of the commission is a great credit to the original drafters.

Following on Senator Cameron's question, would you go a little further in giving us your thoughts on what the maximum parameters of your present commission should be insofar as problems between the two countries are concerned, as opposed to a need for setting up similar commissions, if they were suitable, in other areas. For instance, to what extent would you be able to deal totally with problems of pollution between the two countries in addition to just water? How much would you visualize coming under your umbrella totally in this more complex world?

Senator Grosart: Could I ask a supplementary there? Do you regard Article IV as adequate in relation to air pollution?

Professor Cohen: It has, in our opinion, nothing to do with air pollution. Paragraph 2 of Article IV talks about water pollution, and talks about it in very absolute, simple, or simplistic terms, without mentioning the IJC itself. The IJC is there by way of the invitation of governments to take an interest through references. I go a little further in my personal interpretation. Since we are the only institution mentioned in the treaty, even though Article IV paragraph 2 on water pollution, trans-boundary and boundary, does not refer to the IJC, I think that by implication one can read an IJC presence into the monitoring and surveillance requirements for enforcing Article IV.

To reply to the larger question, however, that stems from the remarks of the chairman, Senator Cameron and yourself—namely, do we need other machinery, particularly for the environmental future of the two countries?—I do not think so. I think, you take the experience we are now having in water pollution, on water levels questions—which have an indirect water pollution bearing, because they lead to erosion and turbulence, all of which have

pollution consequences—you get the interaction between water levels, and water pollution provisions, a kind of general mandate along the frontier. We now have to monitor air pollution on as well along the frontier; and also the land use effects, which the Great Lakes Water Quality Agreement asks us to look into, and how land use affects water pollution, either from the air fallout or into water directly, itself, through drainage. When you look at that whole complex, it seems to me we are in a position, now, with growing experience and some of the machinery, to monitor the environmental complex in the future along the common frontier. What we need is more clarification on our jurisdiction, a deeper headquarters capability in staff, and, over time, the setting up of such new instruments by governments to help us as would be appropriate. I do not mean through the amending of the treaty. We would not want to go through the horrendous problem of amending the Boundary Waters Treaty, but rather through an exchange of letters or notes between the governments, broadening, wherever desirable, the parameters of the IJC's jurisdiction, through this simple mechanism. In that way I think you would build on something solid. You would not try to put a parallel institution in place where you may not have the same luck, or the same traditions to make it work under the present situation. I say that we should build on the solid ground we have already in an area we already are in, and hope that the wisdom of the past will serve the needs of the future.

The Chairman: Yes. I think that is exactly what I was looking for, Professor Cohen. I have just made a note here that governments should possibly draw down on the credibility created over these 65 years, rather than launch into creating other bonds.

Professor Cohen: Do not misunderstand my caution on the ability of the IJC to be used for every type of U.S.-Canada dispute. That would not be my view. My view is that the common fact-finding methodologic can be used, but not always or necessarily by the IJC. However, in the environmental family of immensely complex problems we are there, in place, and there we can do a job.

Senator Grosart: You are going pretty far already when you suggest the use of salt on the highways should be abolished or made illegal.

Professor Cohen: Well, the Land Use Reference Group—that is, on the Great Lakes—will be having to tell us what is the impact on water quality of drainage from tributaries which themselves are drained in from sewers on streets,

which have a great salt and alkali problem. We therefore will get the problem in that indirect way.

Now, if among the scientific recommendations for land use made by the Reference Group there should be one that the provinces, states and federal governments—if they have jurisdiction, and EPA in the United States probably has—should be instituting land use reforms with respect to uses of this kind, to prevent drainage pollution, then that will be a matter that we will have to consider.

Senator Grosart: It gives you a pretty wide spectrum. All you have to do is relate it to water and you are in.

Professor Cohen: If it is only recommendations, that is all.

Senator Grosart: But they are starting to relate air pollution to water too.

Professor Cohen: Very much so. On that point and in preparation for the Law of the Sea Conference it has been pointed out that 80 per cent of the oceanic pollution is due to land-based pollution of air and water moving forward.

The Chairman: Honourable senators, if there are no further questions, and before asking for a motion for adjournment, I should like to thank Professor Cohen for coming here this afternoon.

Senator Grosart: Mr. Chairman, before we deal with that could I suggest, in view of the fact that Professor Cohen has given us a very quick summary of his paper, that this particular paper be appended to the Proceedings for today?

The Chairman: That is the short paper with the list of boards on the back page? I think that would be very well worthwhile.

Senator Carter: Would it not be better to take it as read?

The Chairman: Well, in view of the fact that the professor has spoken to it, I do not think we can take it as read. I think it should be attached to today's proceedings.

I would like to thank you very much, Professor Cohen, for what, to me, has been a very informative and educational session. I am sure it has been equally informative to the other members of the committee. What you have said will be of great assistance to us as we try to formulate what we hope will be a useful and helpful report. Thank you.

The committee adjourned.

APPENDIX "A"

NOTES FOR REMARKS BY PROFESSOR MAXWELL COHEN, Q.C., CANADIAN CHAIRMAN, INTERNATIONAL JOINT COMMISSION, TO THE SENATE COMMITTEE ON FOREIGN AFFAIRS, TUESDAY, FEBRUARY 18, 1975.

I Explanatory Note

Understand Committee at this time is discussing the structures of Canada-U.S. relations rather than substance. The Committee was good enough to invite my views generally on structures, and on the particular experience with, and values of, the International Joint Commission—with the lessons, if any, for other Canada-U.S. institutional possibilities.

II Canada-U.S. Relations in a Global Context

1. Our time is full of contradictions and changes with massive global problems compelling new institutional arrangements—economic, (inflation, growth, trade, etc.) energy, food, population, environment, security, etc. Nationalism, in varying degrees, now moves uneasily in tandem with international and regional machinery. This is true not only for public sectors (states) but for the private sector represented by the multi-national corporation. From this perspective each country becomes a decentralized arena to deal with trans-national problems of immense complexity. The world therefore needs both viable, innovative states (but not mini-states) and viable, imaginative multi-national institutions. The subtle, shifting of balance between them, over time, may be among the most sophisticated challenges for modern international statesmanship.

2. Those institutions already in place range from global mechanisms with differing degrees of clout, e.g. the UN family, to regional machinery with great authority, e.g. NATO, or with little sanctional power e.g. the Arab League. Similarly the movement toward free trade areas or extensive regional economic cooperation, as in the European Community, in Central America, and in East Africa, demonstrates the strong need and urge to find trans-national answers to common economic and technological problems. In environmental matters the same process is taking place—from the Stockholm Conference of 1972 to the present ongoing Law of the Sea Conference—with the likelihood of numbers of new bi-lateral and regional institutions emerging to regulate or manage common marine-land, environmental-economic interests.

3. One significant result of this institutionalizing process, in both a political and formal sense, is to give symmetry to interstate relations that would otherwise be heavily asymmetrical—helping to correct the lop-sided pattern of smaller powers versus greater powers.

III Canada-U.S. Institutions and the Founding of the IJC

1. These global and regional institutions impinge on Canada-U.S. relations for both countries share in so many of them. They transcend Canada-U.S. bi-lateral relations, e.g. globally, from the UN to the World Bank; and, regionally, from NATO in security matters to ICNAF in fisheries.

2. Nevertheless, continental geographic imperatives have compelled the fashioning of joint machinery reflecting the Canada-U.S. fact of physical neighbourhood. I tried to show in my Duke University paper of 1963—portions of which were summarized in the 1973 paper in your hands—that looking at the whole of Canada (Britain)—U.S. Treaty relations, from the 1790's to date, there have been six possible (if arbitrary) periods in the evolution of these treaty relations. (see pp. 196-198)

3. Most of these treaty relations did not give rise to permanent institutions—except in recent times. Rather they provided in most cases for bi-lateral problem-solving by having agreed rules on which negotiation and diplomacy "administration" could be founded; or rules where the Courts of both countries could act upon if necessary, e.g. extradition, taxation, etc. But they left many grey areas, e.g. by not clarifying, through treaty, the effect of U.S. laws on Canada. These extraterritorial effects now causing so much annoyance often may be violations of international law in having the U.S. attempt to apply directly or indirectly its penal and fiscal laws to corporations or citizens of Canada, or U.S. nationals permanently resident in Canada.

4. The growth of bi-lateral Canada-U.S. institutions, that is to say permanent mechanisms which could partly or wholly replace *ad hoc* negotiation, does not really begin until the International Waterways Commission was established in 1905. It soon recognized its limitations since its work was advisory and jurisdiction limited. Disputes over the Niagara River, over dry areas in the West around the St. Mary and Milk Rivers, as well as problems emerging at the Sault in the outflow from Lake Superior into Huron, all encouraged thinking about the need for a more permanent method to deal with these, and others, in the longest, most complex water boundary and trans-boundary river-lake system in the world.

5. These considerations offered an inviting opportunity for creating a permanent institution to "manage" in a comprehensive way, water sharing, water use and levels and flows affecting each country. The U.S. position was contradictory in the 1907 to 1909 negotiations. Agreement finally was reached with concessions on both sides. Originally the U.S. did not want so comprehensive a system of authority delegated to a permanent commission. The Canadians did not want the U.S. Harmon Doctrine claiming absolute rights of diversion by the upstream sovereign of water on either side of the line in a trans-boundary lake or river. However, the U.S. was, at that time, ideologically favourable toward both arbitration or third-party intervention as well as accustomed to the technique of having public hearings before U.S. regulatory agencies made decisions. These views influenced the U.S. advocacy for something similar to be included in the Boundary Waters Treaty of 1909. Finally, the Treaty appears to be the last great Imperial Treaty, signed by the United Kingdom on behalf of Canada—although negotiated essentially by Canadians—all of which has important constitutional significance for today.

6. Not until the International Pacific Halibut Commission in 1923—the first truly Canadian treaty—did a second Canada-U.S. joint agency come into operation, except, of course, for the International Boundary Commission of 1910. Thereafter a series of more or less permanent institutions gradually emerged. These can be classified in different ways and some perhaps do not deserve to be regarded as "institutions". My analysis of them can be found in the 1973 *Columbia Journal*—which you have—on pp. 200 to 201. A more recent listing by Proffs. Holtzi and Levy of British Columbia and Dalhousie is to be found on pp. 877 and 878 of their paper on bi-lateral Canada-U.S. institutions published in the autumn of 1974 in a special number

on Canada and the United States in the Quarterly Journal, International Organization. Notice that from the point of view of actually administering, that is of "managing" a joint operation with permanent joint secretariats, I have found only six such agencies with another five having less of a specifically joint, united, operational mechanism (see p. 201 of my 1973 Columbia paper).

7. The range of most of these institutions is essentially technical. There is, of course, a third group that is primarily political in objective with annual or intermittent meetings and without "permanent" secretariats—the Inter Parliamentary Group and the two Ministerial Committees on Joint Defence, and on Trade and Economic Affairs. The Department of External Affairs' analysis of these institutions in its 1969 paper on the subject did not seem to list the Great Lakes Fisheries' Commission of 1955 or a number of other agencies set out in the Holtsi-Levy list or my own list which leaned heavily on the External Affairs paper.

8. The significance of these lists is to demonstrate the generally limited character today of permanent Canada-U.S. institutions despite the immense network of trade, investment, resource, immigration, cultural, security and other intertwinings that mark the frontier and cross-frontier dealings of the two countries. (No reference is made here to Province-State relations and modalities). In this setting the International Joint Commission would appear to be the most advanced effort to approach the concept and practice of common fact-finding and with common recommendation and common quasi-management and judgment-making in a very significant area of mutual, national interests.

IV The International Joint Commission and the Boundary Waters Treaty of 1909

1. There are several significant features of the Treaty and of the Commission itself.

(a) Its power to make orders binding on both Countries and controlling the building of any structure affecting levels and flows, guided by certain priorities with navigation being a special case, possibly.

(b) Public hearings in dealing with Orders of Approval (and References) with provisions in its Orders for indemnification and protection of injured interests.

(c) The pioneer anti-pollution provisions of Article IV.

(d) The wide range of its investigative jurisdiction of "any other questions" in Article IX.

(e) The so-far unused power to adjudicate "any question" under Article X.

(f) The significant absence of treaty amendments—except for the Niagara and new agreements dealing with Lake of the Woods, Rainy River and Great Lakes Water Quality Agreement of 1972.

2. The structure of the Commission provides for parity of membership with all of its implications—three Canadian and three U.S. Commissioners. However, the Commission acts as a unitary body—with the Canadian and U.S. Sections established only for necessary organizational purposes with offices in Ottawa and Washington. Symmetry here in the Commission offsets the political asymmetry resulting from differences in sheer size between the U.S. and Canada.

3. Similarly all boards in the field—control, investigative, monitoring or surveillance—operate on the basis of parity in membership. All board members are appointed by

the Commission as a whole and all boards owe responsibility "collegially" to the I.J.C. (The Lake of the Woods Board and St. Mary-Milk Board appointed by two Governments.)

4. The two main aspects of the IJC's work, in a formal sense, have been the Order of Approval for water uses affecting levels and flows along the boundary waters or waters crossing the boundary; and investigations (References) affecting levels, flows or pollution with Recommendations to Governments; and investigations into other subjects of a controversial nature, e.g. Point Roberts and Passamaquoddy Power. The track record on acceptance of Recommendations is very good. In the case of these References only 3 recommendations have not been accepted or implemented and only one Board has been divided in its final Report along national lines. The record of the semi-judicial role of the Commission is excellent in the unanimity with which its binding Orders have been reached by the Commission. Only 4 decisions by the Commission in its Orders of Approval have led to dissenting opinions or a divided Commission.

5. Viewed in terms of historical and functional development there seem to be four aspects to be noted about the IJC:

(a) The period of shaping the work of the Commission from 1912 to the beginning of World War II when both application for Orders of Approval and References on Pollution, and Water levels and flows, defined the general pattern.

(b) The "great works" period of post World War II expressed in the St. Lawrence Power (and Seaway) Orders of Approval of 1952 and 1956 and the Columbia River Reference of 1944 completed in 1959 and which laid the basis for the Columbia River Treaty in 1961 and 1964.

(c) The gradual shift away from Orders of Approval to References after 1956 as the principal work of the Commission, e.g. the Great Lakes Levels and the Lower Lakes and connecting channels pollution, (and the Air Pollution References).

(d) The growing importance of air pollution and water quality problems and the emergence of an increasingly environmental perspective from 1960 onwards, culminating in the Great Lakes Water Quality Agreement of 1972 and the Air Pollution Reference Report of the same year.

V Some Observations on the Present Administration and Operations of the Commission

1. The present staff at headquarters. New regional office staff.—For last five years see figures. (See attached)

2. Budget.—See figures for last five years. (See attached)

3. 27 Boards in the field (see table) and dependance on substantive departments for membership on boards and financing of their operations. Excellent cooperation from these departments and three generations of U.S. and Canada public servants who have worked jointly creating a broad pool of cooperating talent in both Countries. (See attached)

4. The future improvement of the Commission's headquarters capability in Ottawa and Washington.

5. Problems of getting early replies to and action on Recommendations.

6. Length of time in preparing Reports, e.g. Great Lakes Levels (nine years to complete the Board's Report)

7. Effect of Great Lakes Water Quality Agreement with its two boards, two groups and regional office on the future work pattern of the Commission, with responsibilities almost amounting to quasi management but with no final authority except publicity. (Note eight matters reserved for the two governments themselves). This is among the main group of problems now before the IJC.

8. Other Problems (See Summary).

VI Conclusions

1. The IJC and Canada-U.S. relations. In a time of considerable destabilization in Canada-U.S. relations with frequent irritation and occasional confrontation, the IJC is doubtless a stabilizing influence.

2. To test this proposition imagine the condition of Canada-U.S. relations if each river basin, boundary air problem, or land use as it affects water quality and air quality along the common frontier, were to be dealt with *ad hoc* through adversary negotiations. To this should be added the growing importance of fresh water needs for all economic and environmental purposes over the years to come and affecting both Countries significantly along the common frontier and elsewhere.

3. The significance today of the IJC is that increasingly it is dealing with complex environmental-developmental questions along the common frontier because there is a powerful bi-national reciprocal interest in their solution and sound symmetrical and unitary machinery (through parity of membership) with a long tradition of effective cooperation, already in place to resolve them. Three generations of engineering and other skills from both Countries have worked together in a remarkable record of successful cooperation.

4. Does this mean that the use of peer technicians, under some institutional umbrella, equal in numbers and skills and appointed by and responsible to that unitary umbrella agency, is a method applicable to other areas of Canada-U.S. relations? How does it square with the new nationalism and the now chosen "third option" of Canadian foreign policy. In my view there is room, within that option, for exploring the applicability of this technique to other areas of Canada-U.S. issues whether under the IJC umbrella or not—and preferably not for most non-IJC type areas. But the technique and its applicability to appropriate situations has been amply demonstrated not only in the work of

the IJC itself but in the recent agreement which defines procedures for agreeing annually upon Canada-U.S. balance of payment figures.

5. The Boundary Waters Treaty is flexible enough to allow for creative interpretation in the future. Ironically, in the present Canada-U.S. mood it probably could not be even drafted to say nothing of being agreed upon by both countries. Interpretations of legal principles and Treaty language by the Commission; the setting up of new tasks for it by both governments as in the Great Lakes Water Quality Agreement; the requests by both Countries for investigation involving a new awareness of the environmental-developmental complex; all these are possible and in effect now for the Commission with no major changes in the core provisions of the Treaty or in the core operating traditions of the Commission.

6. The common frontier is a geophysical fact, a "special relationship", however we interpret that phrase today. That frontier unites the two Countries in their search, through the Commission, for common solutions to their boundary and trans-boundary problems of water levels and supplies, water quality, air quality and related land use problems. No one could have foreseen this interacting 1975 complex of issues in 1909. Neither can we foresee the further evolution of that complex in 1995. But we must have the imagination to envisage the meaning of the present for the ongoing tasks of the future. For these reasons the Commission may have to have the capability of undertaking preliminary inquiries of its own wherever its emerging environmental-developmental perspective alert it to possible difficult issues arising along the common frontier. It should have the power to publicize its considered views on all matters of common interest to it as it now may do for the Great Lakes cleanup but which authority is not clearly present for its other duties under the Boundary Waters Treaty itself.

7. Finally, "nationalism" as a source of social energy can be both creatively constructive and hugely destructive. One of the consequences of nurturing stabilizing instruments for dealing with appropriate sectors of Canada-U.S. relations is to channel that energy and imagination derived from the new nationalism toward constructive, tough-minded but rational solutions rather than having confrontation answers to Canada-U.S. problems. We lose nothing by being firmly wise on the level of equality through parity institutions rather than being aggressively angry from a posture of inequality through the reality of differ-

IJC ACTUAL AND ANTICIPATED EXPENDITURES
1970-1977

Fiscal Year	Canadian Secretariat		Great Lakes Regional Office	
	OTTAWA		WINDSOR ²	
	Expenditures	Man Years	Expenditures	Man Years
1970-71.....	499,000	11		
1971-72.....	536,000	11		
1972-73.....	451,000	12	***	4
1973-74.....	504,000	14	206,000	8
1974-75*1.....	1,180,000	14	640,000	15
1975-76**.....	1,450,000	24	850,000	20
1976-77**.....	1,500,000	26	1,300,000	20

*Estimated

**Anticipated

***Included in Ottawa Secretariat budget

¹This includes payments to the Government of Ontario for one-half the costs of the work carried out by Ontario in direct support of the Commission's Land Use Activities Reference and the Upper Lakes Pollution Reference.

²The costs of the Regional Office at Windsor, staffed by Canadian and United States Public Servants, are shared equally between Canada and the United States except for capital items (furniture and furnishings) which are paid for and retained by Canada. Each Country pays and recruits its own officials. The figures above represent salaries of Canadian professional and support staff and the total operating costs which are initially paid from Canadian appropriations and then are shared by the United States equally.

It is not possible to estimate approximate values of the services of other departments which have been provided to the IJC during the same period, which have run into millions of dollars. Much of the work performed by Departments for the IJC consists of work required as well under ongoing Departmental programs.

Z Number of Canadian Members

REPORTING BY INTERNATIONAL BOARDS

	Board Appearance	REPORTS		IDENTIFICATION OF REPORTS
		Frequency	When	
Boards of Control				
St. Lawrence River (4) *..... *	Yes	Semi-	Apr-Oct	41st Progress Report Sept 73-Mar 74
Niagara River (2).....	Yes	Semi-	Apr-Oct	42nd Semi-Annual Progress Report Sept 73-Mar 74
Lake Superior (1).....**	Yes	Annual	Apr	48th Annual Report 1973 Calendar Year
St. Croix River (1).....	No	Annual	Apr	1973 Annual Report
Prairie Portage (1).....	No	Annual	Apr	Report for Calendar Year 1973
Rainy Lake (1).....*	As Rq	Annual	Apr	Report for Calendar Year 1973
Lake of the Woods (1).....*(x)	No	Annual	Apr	Report for Calendar Year 1973
Souris River (1).....	No	Annual	Apr	15th Annual Report Calendar Year 1973
St. Mary-Milk Rivers (1).....	No	Annual	Apr	Report for 1973
Kootenay Lake (2).....*	No	Annual	Apr	35th Annual Report (1973 Calendar Year)
Columbia River (1).....	No	Annual	Apr	32nd Annual Report 1973
Osoyoos River (2).....	No	Annual	Apr	28th Annual Report 1973
Skagit River (1).....	No	Annual	Apr	7th Annual Report 1973 Calendar Year
Champlain (1).....YY				
Pollution Advisory Boards				
St. Croix River Pollution (3).....	As Rq	Semi-	Apr-Oct	24th Progress Report February 1974
Rainy River Pollution (2).....	As Rq	Semi-	Apr-Oct	17th Progress Report March 1974
Red River Pollution (2).....	As Rq	Semi-	Apr-Oct	10th Progress Report March 1974
Air Pollution-Boundary (3).....	Yes	Semi-	Apr-Oct	Progress Report # 16, April 1974
Great Lake Water Quality Agreement				
Great Lakes Water Quality (9).....	Yes	Semi-	Apr-Oct	Semi-Annual Report April 1973 or 3rd Progress Report October 1973
Great Lakes Research Adv. (8).....	Yes	Semi-	Apr-Oct	Semi-Annual Report September 1973
Upper Lakes Pollution (8).....	Yes	Semi-	Apr-Oct	3rd Semi-Annual Report March 1974
Land Use Activities (9).....	Yes	Annual	Apr	3rd Progress Report March 1974
Working Group on Dredging (7).....YY				
Investigative-Engineering Boards				
Champlain Richelieu (4).....	Yes	Semi-	Apr-Oct	Not Applicable. Final report for 1 year study.
American Falls (2).....	Yes	Semi-	Apr-Oct	14th Semi-Annual Progress Report Sept 73-Mar 74
Great Lakes Levels (3).....	Yes	Semi-	Apr-Oct	19th Progress Report Sept 73-Mar 74
Roseau River (2).....	Yes	Semi-	Apr-Oct	Semi-Annual Progress Report Sept 73-Mar 74
Souris and Red River (3).....	No	Annual	Oct	38th Progress Report Oct 72-Sept 73
Point Roberts (3).....	Yes	Semi-	Apr-Oct	3rd Interim Report
St. John River (CCMS) (3).....(xx)				

NOTES: *Regulation Data Submitted weekly. **Regulation Data Submitted monthly. yy Inactive. yyy Not reporting directly. (x) Strictly not an IJC Board since created by Convention and appointed by Governments. (xx) Created by both Governments but reporting to IJC.

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FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*



Issue No. 7

THURSDAY, FEBRUARY 20, 1975

Sixth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

CORRECTION

On Page 22 of Issue No. 6 (English) of this Committee's printed proceedings, paragraph 7 should read as follows:

"7. Finally, "nationalism" as a source of social energy can be both creatively constructive and, hugely destructive. One of the consequences of nurturing stabilizing instruments for dealing with appropriate sectors of Canada-U.S. relations is to channel that energy and imagination derived from the new nationalism toward constructive, tough-minded but rational solutions rather than having confrontation answers to Canada-U.S. problems. We lose nothing by being firmly wise on the level of equality through parity institutions rather than being aggressively angry from a posture of inequality through the reality of differences in sheer size."

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, February 20, 1975.
(10)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9.00 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Asselin, Bélisle, Cameron, Carter, Connolly (*Ottawa West*), Croll, Flynn, Grosart, Lafond, Laird, McElman, McNamara, Rowe, Sparrow and Yuzyk. (16)

Present but not of the Committee: The Honourable Senators Fergusson, Langlois and Thompson. (3)

In attendance: Mr. Barry Toole, Intergovernment Affairs Bureau, Cabinet Secretariat, Province of New Brunswick; Mr. Winfield Hackett, Executive Assistant to the Premier; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witnesses: Honourable Richard B. Hatfield, Premier of New Brunswick; Governor Kenneth Curtis, Former Governor of the State of Maine, U.S.A.

At 11.20 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, February 20, 1975

The Standing Senate Committee on Foreign Affairs met this day at 9 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, it gives me great pleasure this morning to welcome two very distinguished witnesses to this committee.

Premier Hatfield, of New Brunswick, does not need much introduction to Canadian parliamentarians. He is a native New Brunswicker. He attended Acadia University and studied law at Dalhousie University. He was in Ottawa in 1957 and 1958 as executive assistant to the then Minister of Trade and Commerce. He was elected to the New Brunswick Legislature in 1961, and became leader of the provincial Progressive Conservative Party in 1969, and Premier of New Brunswick in 1970.

Governor Curtis is a native of the State of Maine, and another lawyer. I might say that I feel in very good company here. He was Secretary of State for Maine, before being elected Governor in 1967. He served two terms as Governor and was not eligible to run for a third term, and as a result returned to his law practice early this year. During his term of office he was active in promoting regional conferences of Governors of the New England States and in seeking cooperation with our Eastern Provinces, and it was under his administration that Maine became the first state to establish a separate office for Canadian Affairs.

Among the findings of a recent study prepared for the U.S. State Department it was found that no other province and state relationship along the length of the Canada-U.S. border was more active or intent than that between Maine and New Brunswick, so it is particularly fitting that these two gentlemen have been kind enough to come here today to discuss this relationship.

I might just mention that Premier Hatfield has with him Mr. Barry Toole, the Director of Inter-governmental Affairs, and also present is Mr. Hackett, his Executive Assistant.

Before proceeding I should make one announcement. Our next witness will be the Honourable Jack Davis, former federal Minister of the Environment. That meeting will be on Tuesday afternoon, March 4.

Gentlemen, I shall ask you to make short opening statements. Senator McElman, followed by Senator Yuzyk, has agreed to lead off the questioning.

Honourable Richard B. Hatfield, Premier of New Brunswick: Mr. Chairman and honourable senators, I am very pleased to have this opportunity of discussing with you the subject of Canada-U.S. relations.

Needless to say, Canada's relations with its neighbour to the south have been, and will continue to be, a most important factor in Canadian policies and development. I have been asked to discuss a particular facet of Canada's relations with the United States—that is, New Brunswick's relations with the State of Maine and with the New England area in general.

Contact between New Brunswick and the New England area goes back a good many years, to well before New Brunswick was a province as we now know it. I shall not go into the many historic details of this relationship dealing with resettlement of residents of the New England States, or the many protracted and difficult border disputes which eventually culminated in the boundaries between New Brunswick and Maine as they now exist.

Perhaps one incident in our long-standing dealings with Maine will serve as an example of the kind of congenial and productive relationship which we still enjoy. During the war of 1812 citizens and the military along both sides of the Maine-New Brunswick border in Charlotte County, in the southwestern portion of the province, refused to have anything to do with fighting one another. So there was no military action on that front at all. In fact when the war was over, authorities on the Canadian side of the border turned over the unused ammunition supplies to their U.S. neighbours so that they could celebrate the fourth of July. I do not want to suggest that this kind of “explosive” and “results-orientated” relationship has always been possible between Maine and New Brunswick.

Both the state and the province are, of course, parts of different national federations, with all the constraints that imposes on freedom of action in intergovernmental affairs at the state or provincial level. However, the long historic and cultural bonds that exist between the two jurisdictions have served to keep Maine and New Brunswick in each other's consciousness, and have led to a rather impressive and varied array of joint formal and informal arrangements, agreements and accords.

Currently, there are 29 arrangements or agreements between Maine and New Brunswick, in which the two jurisdictions are the sole participants. If you add those agreements in which New Brunswick is mentioned specifically along with other eastern Canadian provinces, the total is increased to 49.

These arrangements, agreements or informal accords range from such specific and practical matters as the joint use of a potato seed plot in Florida, cooperation in social work services, flood monitoring and fire control, to general understandings on the need to examine common problems and areas of mutual concern such as trade and energy where joint action might be appropriate.

Another factor which has tended to bring New England and the Maritimes, including New Brunswick, closer together is that both the New England and Maritimes areas

were once far more important than they are now in the contribution they made to their respective national economies. In the last 100 years or so, their participation in national economic development has declined as industrial growth and trading opportunities shifted to other regions of our respective countries. This has lent to the Maritimes and New England attitudes toward their respective federal governments a very similar view about the need to ensure that economic and social opportunities in these regions are expanded and enhanced. At the same time, it has prompted the governments in both regions to look at their own resources as a means of improving their situation through cooperative ventures and joint research.

In the Maritimes, this has taken the form of the Council of Maritime Premiers and, in New England, the Conference of New England Governors and the New England Regional Commission. Thus, it has become apparent to states and provinces in both areas that not only are many of their internal and regional problems similar, but that they are attempting to solve these problems and to obtain federal assistance for these efforts in similar ways.

This conjunction of economic, social and intergovernmental characteristics has played a large part in recent efforts to bring about increased and improved cooperation and collaboration between the New England region and the eastern portion of Canada.

These efforts have taken the form of a series of meetings attended by all five eastern premiers together with the six New England Governors—the first, two years ago, in Prince Edward Island; the second, last year, in Vermont; and, a third, to be held this June in New Brunswick.

A joint U.S.-Canada committee of officials has been established which meets from time to time throughout the year to examine various regional issues and to prepare for the annual conference. Transportation, tourism, trade and energy matters affecting the entire Eastern Canadian and New England area have been discussed at these conferences and although progress has been rather slow, it now appears that at this third meeting some concrete action might be considered. The benefits from this kind of activity stem, to a large degree, from the personal contact and exchange of information that takes place between the Premiers and Governors and their officials on these occasions.

This is not to minimize, however, the impact of joint resolutions and agreements which have and will be approved by the Conference. By way of example, one of the matters currently under discussion concerns trade between the two regions and the development of a list of specific commodities which both sides would like, jointly, to see sold in large quantities in the New England and eastern provincial areas.

The significant phrase here is "joint" since what is envisaged is a list of commodities which both sides would be willing to import as well as export, in and from their regions.

If agreement can be reached on this matter, I would envisage a joint U.S.-Canada effort to persuade both national governments to ease the terms of trade on these commodities flowing between the two regions.

Steps toward cooperation of this sort must, of necessity, be small at first; the objectives practical and attainable within the federations in which the provinces and states find themselves. At the same time, however, it is important

that both federal governments be made aware of the conjunction of the regional and economic interest between the two regions so that cooperative action at the national level, if appropriate, can be taken to relieve some of the economic and social burdens which have been placed on Eastern Canada and the New England area.

In summary, there has been, as I have indicated, a good deal of progress in improving and consolidating relations between New Brunswick and Maine and between Eastern Canada and the New England region.

I believe that we can do more. I believe that it is important that we do more. But the impetus to do more must come from the states and provinces themselves, by identifying areas of common interest and concern, by assisting one another when possible and by cooperating with one another when cooperation will yield mutual benefit.

There are some things we can do among ourselves as states and provinces; others are beyond the joint competence of the provincial and state governments because of the wide economic, financial and constitutional powers of the respective federal governments. On these matters, it is my view that agreements or determinations entered into jointly by states and provinces should be brought jointly by those states and provinces to the attention of both national administrations. In this way, the necessary inter-relationships on which the determinations are based will be placed in context and both federal governments will have an opportunity to assess their implications and take action, if appropriate, in a manner which will be to the greatest advantage of the larger province-state region.

Mr. Chairman, I should like to thank you for the opportunity of saying these few words, and I am most willing to answer any questions.

The Chairman: Thank you very much, Mr. Premier. We will go directly to Governor Curtis.

Kenneth Curtis, Former Governor of the State of Maine: Mr. Chairman and honourable senators, it is an honour for me to accept your kind invitation to appear before this distinguished committee. In fact, it is my first appearance before a Canadian Senate committee. I have attended a great many in the United States.

I am particularly pleased to be present with my good friend and former colleague, Premier Hatfield. I would like you to know that his efforts to improve opportunities for the people of New Brunswick and the understanding that he has demonstrated for the problems of the people of Maine have earned him a very proud and fine reputation in the State of Maine and with our people.

I would just like to say that as we citizens of the United States are informed of the complex negotiations being undertaken to effect a peace in the Middle East, and read about the re-opening of relations with mainland China and the slowdown in the arms race with the Soviet Union, we should pause and be thankful for the excellent international relations that we have so close to home, and be mindful of the long and dependable friendship of our Canadian neighbours.

It is particularly easy for us in the State of Maine to be conscious of this relationship. More than 20 per cent of our citizens are of Canadian descent and three-fourths of our land boundary is shared with the provinces of New Brunswick and Quebec. Many of the problems our people face in their desire to provide a good life for their families, know of no international boundary.

The State of Maine and particularly the Atlantic Provinces seem to have more than the usual amount of common problems. We are underdeveloped, we suffer from too much unemployment and underemployment. We are at the extreme corners of our respective countries. We have similar climates and we depend a great deal upon agriculture, forestry, fisheries and tourism.

Being mindful of the financial resources needed to further develop and improve, and of the informal cooperation already existing, it is only natural that we should continually explore ways in which we can help one another.

Accordingly, Premier Hatfield and I met at Campobello Island on June 21, 1971, and established a committee to determine areas where cooperative programs might be of mutual advantage. We met again at Fredericton, New Brunswick, on October 18, 1971, and initiated a program of cooperation in the areas of the environment, energy, trade, tourism and transportation. At our meeting in Fort Fairfield, Maine, on July 22, 1972, we broadened this program to include forestry, fisheries, recreation and agriculture. On June 28, 1973, we further solidified our efforts by entering into a joint agreement, which would continue in our respective state and provincial governments the "exchange of information, material, personnel and ideas" in the specific areas that we had previously designated.

This effort towards closer cooperation is now being pursued on a regional basis. As Premier Hatfield has mentioned, the New England Governors and the Eastern Canadian Premiers met for the first time seriously at Charlottetown, Prince Edward Island. Two task forces were formed to study and make recommendations in the very critical areas of energy and transportation. At the second meeting at Sugarbush, Vermont, in June of last year, this was further pursued and solidified.

The State of Maine has also been very active in a program of cooperation with the Province of Quebec. In fact, the amount of activity reached such a high level that on January 29, 1973, I established the Office of Canadian Relations by Executive Order to provide a full-time liaison between the State of Maine and the Eastern Canadian provinces. A short report of its activities is available for this committee which I will leave with you as part of my testimony. Immediate results will probably not be visible from our testimony, our reports, on our efforts, but I think significant benefits have accrued.

The close relationship leads to frequent informal telephone conversations between the Premiers and myself and a corresponding relationship between other state and province officials.

While there can be no infringement upon those matters which, by law, must remain with our national governments, a great deal can be accomplished by a close, informal working relationship between adjoining states and provinces. For instance, transportation can be coordinated, environmental needs jointly studied, publicly funded research activities in relation to rapidly dwindling natural resources can be shared and coordinated. The potential for government savings and economic benefit in all of these areas is substantial, but more important is the constant reminder of our heritage of friendship and the common desires of our people.

I appreciate the chance to make these comments and I, too, will try to answer any questions that you might have.

The Chairman: Thank you very much, Governor Curtis.

Coming, as I do, from Vancouver, at the other extremity of our country, I listened with great interest to your respective remarks. I may say, Governor Curtis, that in calling on Senator McElman, I am calling deliberately on a New Brunswicker to open the questioning. He and Premier Hatfield are adversaries at home, but this is a non-adversarial body.

Senator McElman: Mr. Chairman, first of all, I want to join you in extending a very warm, friendly welcome to Premier Hatfield of my home province and Governor Curtis of Maine, the home state of a number of my very close relatives. I think that is indicative of the more than friendly relationship that we have. I think it is also indicative that the presence of these two witnesses, together, is a sign of a long and friendly relationship that has been, historically, maintained between the State of Maine and the Province of New Brunswick, quite aside from national relationships.

If I could just add an addendum to Premier Hatfield's reference to the war of 1812, there is a bit of folklore that there was one casualty in that war. The governments on each side provided ammunition and guns to those who wished to be participants in the war and exhorted them to "fight, damn you, fight", and they used to go out in the evening and fire their guns into the air to satisfy their respective governments. One evening one of the chaps involved was a bit on the inebriated side; he didn't get his gun into the air and, as a result, shot a cow. History doesn't record whether it was a Canadian or American cow, but that was the only casualty of that war between the State of Maine and the Province of New Brunswick.

I am sure that Premier Hatfield and I could take up the time available to the committee this morning with a step-by-step discussion of how federal policy on tariff and other matters, historically, has had a very detrimental effect upon our province and other Maritime provinces, as well as the State of Maine. However, our immediate purpose is to consider the existing machinery of Canada-U.S. relations and suggestions for improvement of that machinery, so I shall try to refrain from moving into the broader field which I am sure is much closer to our hearts.

Premier Hatfield, you have in your office a division that is dedicated to intergovernmental affairs—presumably those between New Brunswick and Maine as well. What proportion of the negotiations, arrangements and so on, between New Brunswick and Maine would be handled through that office, as opposed to those that would be handled head on between department and department of the state and province?

Hon. Mr. Hatfield: So far as the relationship between Maine and New Brunswick is concerned, it used to be handled directly by one of the special assistants in my office. If we were to have a meeting on tourism, for example, the officials would get together. The way we started out was extremely informal. The first three or four meetings were very informal, and that is one of the reasons why they succeeded. The Governor and I would meet and discuss certain areas where we would like to see progress made, and until he set up the office of Canadian Relations, my special assistant and his special assistant would see to it that those officials got together.

Now that we have formed the larger groups in New England and Eastern Canada, there is a need for more formality, and there is a great deal more work involved. The Office of Intergovernmental Affairs would again, I

think, act in a supervisory role, but might also be represented at any meeting, even though it was just a meeting between two departments having to do with tourism, for example.

I should point out that I put some emphasis on tourism because we see an opportunity for our regions in the two major forthcoming events in 1976—the Olympics in Montreal and the bicentenary in the United States. We think both regions can take advantage of those two events to our mutual advantage.

Senator McElman: Does this division in your office have a close liaison with the federal authorities, either as a matter of information or in making arrangements for negotiations that do go on, or is it largely involved in direct state-province dealings?

Hon. Mr. Hatfield: From time to time we get inquiries from the federal government, but I think it is a self-imposed policy that we do not engage in anything that is federal in nature. If we do, we will let the respective federal governments know. It is clear that the kind of arrangements and accords we have reached are within our competence, because they are really just mutual agreements to work together.

Senator McElman: Currently there is a good bit of discussion between the two countries in matters of energy. According to this morning's *Globe and Mail*, William Porter, the U.S. ambassador to Canada, just yesterday made a rather important speech. He has commented upon a fair number of the issues of bilateral concern in Canada-U.S. relations, including the Tokyo round of GATT and, more particularly, on energy and the Foreign Investment Review Agency. For the benefit of the committee, could you tell us the machinery you have used with respect to energy matters—bearing in mind that New Brunswick is a large exporter of electrical energy to Maine and the New England States—and also the Foreign Investment Review Act.

Ambassador Porter has expressed grave concern about the second phase of the foreign investment issue, and the need for advanced discussions before any restriction is imposed. Can you tell us of any advance discussion there might have been as between provinces and the federal authority on the Foreign Investment Review Act, the machinery in use, and how it might be improved?

Hon. Mr. Hatfield: There has never been any discussion between New England and Eastern Canada, and no discussion between Maine and New Brunswick, on the particular subject of the Foreign Investment Review Act.

The only discussion between the provinces and the federal government has been at the ministerial level, at the official level, between Industry, Trade and Commerce and some of our officials in New Brunswick. In direct discussion with the minister with regard to the second phase, I indicated to him that my position has not changed with regard to the Foreign Investment Review Act. I expressed my opposition to it before a parliamentary committee in Ottawa, but that has not been discussed between the State of Maine and the Province of New Brunswick.

As far as energy is concerned, we have had two or three meetings where that has been the topic of discussion between the State of Maine and the Province of New Brunswick, and between Eastern Canada and New England. Again, the officials met and had a discussion, but up to now it has been more of an exercise in trading informa-

tion and understanding the problems that each of us have. I point out that that is very valuable because nearly two years ago, when there was a decision in Ottawa to cut off the export of oil from New Brunswick to Maine, feelings between the two countries were pretty badly strained, and the feelings between Maine and New Brunswick were substantially strengthened because we both understood, having had these discussions, how difficult the problem was.

We found it difficult, and I think Ottawa found it especially difficult, to understand that the closing down of plants in Maine meant that a lot of Canadians would be thrown out of work. We finally got that message across to them. The oil flowed again and the men worked.

As far as power is concerned, that is an area of some difficulty. I think that Ken Curtis and I have the same views with regard to public power. The fact of the matter is that most of his power production is privately owned. But, having said that, the relationship between the New Brunswick Electric Power Commission and the Maine Public Utilities and the New England Utilities is very good, and it is important to us that we maintain that relationship. These are hard contracts, of course, approved by the National Energy Board. The arrangements there are worked out at that level, but with our full support.

Senator McElman: And all the negotiations take place at the local level, so to speak, and you have to get approval?

Hon. Mr. Hatfield: Yes, the Maine privately-owned utilities formed an association called the Maine Public Utilities and we negotiate with that body. The New Brunswick Electric Power Commission, for example, negotiates with that body and they reach a mutual agreement. That is then approved by the National Energy Board, and the contract takes effect.

Senator McElman: With respect to the Foreign Investment Review Agency, you have suggested that the discussions as between province and federal government has been less than what they might have been. Are there any indications that there will be improvement as a result of your representations? Will the provincial and state people involved be permitted greater input before decisions are reached?

Hon. Mr. Hatfield: Quite frankly, I think discussion on this particular subject should be left out of the New England-Eastern Canada discussions or meetings because it involves economic development, the attraction of industry, and so on. There is a good deal of competition within the region, as it is. That is more or less by way of a gentleman's agreement. In the Council of Maritime Premiers, for example, we do not get into the area of economic development. We would like to make a lot more progress than we have on other fronts before we get into this area where there could be much competition, friction and difficulty in reaching agreement. That particular area should not be, at the moment, discussed between New England and Eastern Canada; it should be discussed between the provinces and Ottawa.

Senator Yuzyk: First of all, I should like to state that I come from Saskatchewan and Manitoba, which provinces came late on the scene in respect of relations with the United States when compared with the eastern regions of Canada. Eastern Canada and the New England States go back to colonial days, and have established certain pat-

terns of relations which will prove very useful to us in helping to sort out many of the problems, and the solutions and possible solutions in the future. I am, therefore, very happy to see both Premier Hatfield and Governor Curtis before this committee. I shall pursue certain problems that perhaps the Maritimers do not encounter, but they are problems that are general in nature, and their solutions will help other sectors, particularly Western Canada and the Western States.

I direct my first question to Governor Curtis. Province-state dealings give rise to legal and constitutional limitations. The United States Constitution constrains states from entering into any agreement or compact with another state or with a foreign power. The Canadian Constitution much less clearly defines the role of provinces in external affairs. This, of course, poses problems. What problems with federal authorities in the past have arisen regarding signed agreements?

Governor Curtis: We have never, to my knowledge, experienced any specific problems with the federal government because our agreements have never been anything other than what they purported to be. They are built on good faith and good will, and are certainly not legally binding in any sense of the word, and are not intended to be. I think if, in order to cooperate, we had to develop binding legal contracts to get the good will of the other side, then the whole exercise would be useless in the beginning. So we have had no real difficulties.

You could stretch the word "difficulty" a little bit. There are areas, for instance, in trade and transport, and so forth, where there are laws which are not greatly conducive to trade and which we cannot do anything about directly. Here is an instance where we would like to see our respective federal governments take different stances, and be more helpful to us. But we do not try to follow these types of agreements directly.

Senator Yuzyk: Do you consult with the federal authorities before making an agreement?

Governor Curtis: No, I never have. There is a liaison officer in the State Department for the governors. He works directly in trying to help them with problems, and when we have a major meeting he is always invited and normally comes as an observer. In my own instance, I have never consulted the federal government because we have never done anything which is an infringement upon the Constitution, so there has really been no need to consult. It is all an informal relationship.

Senator Yuzyk: The fact that there are problems that come under federal jurisdiction must have held you back in certain agreements that you might have wanted to make.

Governor Curtis: I can recall the Forest Fire Fighting Compact that exists between Maine and New Brunswick and Maine and Quebec. I think that was started through the federal machinery in both the United States and Canada back in 1946, and we finally signed it when I was Governor in 1967 or 1968. That seems to be quite a time in which to do something that is logical.

I think there is an instance now where the Premier and I have been working for quite some time for mutual disaster assistance through Civil Defence. We found legal impediments to entering into a compact of this nature. It is sort of a sharing of information. We say that we have a type of

equipment available on our side of the border which you could use; if you need it, just call us up and we will send it over to help you out. It is nothing binding, but it is the type of thing where we know what is available on each side of the border to help one another—which may be just as good.

Senator Yuzyk: In other words, the agreements that have been made so far between the provinces and the states have not had international sanction or the force of international law.

Governor Curtis: That is correct, except for the Fire Fighting Compact.

Senator Yuzyk: That is what I meant by the inhibitions. You might want to make certain agreements, but both sides look at the respective Constitutions, and if you consider there are going to be definite limits, then you do not proceed with the agreements that you might have wanted to make.

Governor Curtis: I think we might proceed with an agreement of understanding, but never formalize it to the point where it is anything more. It could disappear when another Governor or Premier assumes office. It is just hoped that it is a good enough idea so it will be continued by subsequent administrations.

Senator Yuzyk: Is there a federal presence at all when you make your compact or agreement?

Governor Curtis: No, not from my side.

Hon. Mr. Hatfield: Not from Maine and New Brunswick, but we have observers from both Washington and Ottawa at the meetings of the New England-Eastern Canada Conference.

Senator Yuzyk: So they are fully aware of the problems that may arise regarding any compact or agreement?

Hon. Mr. Hatfield: Yes. The meetings of the New England-Eastern Canada Conference are public meetings. In my own experience, what we did when we signed these agreements was to send them to the Minister of External Affairs for his information only. I assume if we had done something that was an infraction of the Constitution that he would have let us know.

Governor Curtis: I think the signing and drafting of the agreement was done more to let our respective departmental people know that we were serious about getting together.

Hon. Mr. Hatfield: Exactly, Mr. Curtis.

Governor Curtis: By putting this in writing and passing it around, and by having a department's thought on it, our employees were caused to spend more time with each other on mutual problems.

Senator Yuzyk: This question could be posed to both of you because it deals with federal authorities. Would you like to see future arrangements that you may want to make between the states and the provinces move clearly defined by the federal authorities.

Governor Curtis: I do not know whether this would be possible to do, but it might be a good thought to try to define certain minor areas where states and provinces could enter into contracts without a lengthy proceeding to get permission from both federal governments.

There are areas of conservation, fire fighting, disaster assistance and this type of thing, and I do not see how any federal government could object to a cooperative arrangement in respect of them. I do not know how you would draft limitations on what we would be allowed to do. It would be helpful if there was more freedom.

Hon. Mr. Hatfield: As we move into more important and more significant areas, that will be necessary. I think there is a desire in that region to have some special consideration with regard to energy and the exchange of energy. We cannot do that on our own. We have to have the cooperation of both federal governments.

Senator Yuzyk: Do arrangements concerning Canadian members of American associations have to be worked out with the federal government. Take as an example the North Eastern Interstate Forest Fire Protection Commission of which New Brunswick is a member. Do you go to the federal government for approval of the appointment of your members to this commission?

Hon. Mr. Hatfield: I don't think so.

Mr. Curtis: That was born out of the compact which was ratified by the Congress and Parliament, and then ratified by individual states and provinces. We did have to have federal permission for that to enable the action.

Senator Thompson: I got the impression, Governor, when you mentioned that the fire fighting compact took so long, that you really do not want to formalize the procedure at all.

Governor Curtis: That is the type of area where there ought to be an easier procedure to formalize something than that which existed. It was a very significant step forward to protect our common woodland to have this agreement. It seems that something must have been a little bit wrong for it to take so long to formalize the agreement. What I am saying is that in many instances we have relationships going between the provinces and the state governments. If there is a bad fire across the border, we would help out without a compact. Just from a good will standpoint and common concern for people we would move in and help out. You do get into a legal problem, I suppose, if there is death, serious damages, large expenses incurred, and so on. After the fire is over, and you get to the problem of paying for these things, the compact is a very helpful document to have.

Senator Thompson: Surely the purpose of the federal agreement was to ensure that at the provincial and state levels that there would be a good working arrangement.

Governor Curtis: Yes.

Senator Thompson: It seems to me you are saying the federal government in making arrangements really hinders the informality and the process. I almost get the impression you are saying, "Let us not have the federal government making agreements. We can work out things ourselves. We have a good personal relationship."

Governor Curtis: I hope I did not leave that impression. I meant in minor matters; certainly not matters of large import to the two national governments. What I was pointing out was the difference between doing something rather obvious and rather small on an informal basis, and doing something on a formal basis which often takes, years of time and reams of paper.

Senator Laird: Governor Curtis, just on that point, is there not a very real difficulty in getting too formal an arrangement between political subdivisions of either, Canada or the United States. There are very real difficulties, not only constitutionally, but otherwise. Do you not feel that—

Governor Curtis: Yes. If the relationship is built on good will, the simpler you can make that relationship, the better it will work. It is like a fence between neighbours.

Senator Laird: Would it be fair to suggest to you gentlemen that probably more is accomplished by direct informal contact than any other way.

Governor Curtis: There is no question about it.

Senator Laird: I am from Windsor, Ontario, and while there does not appear to be all that much contact between Lansing and Toronto, from my experience, the fact is a lot of informal contacts are made across the river. When Soapy Williams, for instance, was Governor, he loved to come over to Windsor and spend some time with us, and we sort of passed the information on to Toronto or Ottawa, and vice versa. When Gerry Cavanaugh was Mayor of Detroit, we knew Gerry as well as we knew our own mayor. Probably that is the way you operate.

Governor Curtis: Yes.

Senator Laird: I direct my next question to Governor Curtis, but perhaps Premier Hatfield may have something to say about it. I suggest the legislation regarding foreign investment, in fact, mechanically, has not worked out to be all that restrictive, but what is of concern is the screams of a very small minority of ultra-nationalists in Canada. Frankly, I have seen this happen, and I am wondering if in your experience this has militated against American investment in Canada.

Governor Curtis: I am not really qualified to answer specifically how extensively it has or has not. On the whole matter of trade policies and investment, there is certainly an awful lot of room for improvement. I start with that generality.

I think one of the advantages to regionalism—and I hope this will develop more with the eastern provinces and the New England States—is that there is an opportunity to get together as a region and discuss these barriers to what might be obviously good for the two areas, and then direct some kind of formal voice to the respective federal governments expressing this problem. That might be far more effective than for an individual state or province saying, "We don't think this policy is particularly helpful to our region."

Senator Laird: You do not seem as concerned as some of our prior witnesses have been of the vocal nature of the protests of the Canadian ultra-nationalist against any foreign investment. You do not seem to be too concerned about that.

Governor Curtis: I do not have a great deal to invest. That is why I don't get too concerned about it.

Senator Laird: Have you run up against this, Premier Hatfield? I can tell you—and I can hardly name names—of instances of American investors who have been scared off by the loud voices by some of these people.

Hon. Mr. Hatfield: The main objection I had to the Foreign Investment Review Act was the uncertainty it created in the minds of the best informed investors. I took great exception to the fact that the reason for restricting any investment was going to be made subjectively by Cabinet in secret and never in public. The answer I get is that it is almost impossible to develop criteria for investment; they have to evolve. If they have legitimate reasons for keeping out investment, they should state them.

I cannot state a particular instance where an investor having said, "I am definitely going to New Brunswick," and then, because of the Foreign Investment Review Act or because, as you say, of the clamour of ultra-nationalists, saying, "I'm sorry, I have changed my mind. I'm going somewhere else."

We do think that it did definitely have an influence with respect to the decision that Continental Oil made. They signed a contract with us and then backed out. I think that was part of it, but not all, by any means. The worst thing, of course, and the greatest discouragement of all to investment of any kind, anywhere, under any circumstances, is uncertainty. You are not going to invest in something you don't know anything about.

Senator Laird: That is right, but that uncertainty is only created when across the border they hear of all of these Canadian ultra-nationalist speeches.

Hon. Mr. Hatfield: Yes, especially, when you are confronted with the information that your application is going to be submitted to government, and the government is going to decide on that application some day six months hence, and they are either going to approve it or turn it down, and you will not know why. I think our incentives are going to have to be substantially increased, when they get into the second phase of this act, to encourage investment. If you give them enough money they will come.

Senator Laird: At the risk of getting into trouble with my fellow Liberals, I must admit that I sympathize with your point of view. I must confess to the chairman that I am married to an American girl, and Keith Davey says she is my conflict of interest.

Senator Rowe: Mr. Chairman, I missed a few minutes of the discussion and it may be that my point came up while I was out. However, before I ask the question it occurred to me that it might be of interest, if not to the committee, then to our guests this morning, if I say I come from the Province of Newfoundland, and we have in Newfoundland probably the finest moose herd in the world—between 40,000 and 50,000 disease-free moose. They are, at least, free of any serious disease, and they are not indigenous to Newfoundland. This is the result of two importations—one from the State of Maine, and one from New Brunswick. One importation was around 1890, and the other, I think, around 1904. We do not know where our moose came from, but in all probability from both importations. Anyway, they would be the same moose. Incidentally, by bringing them in at a time when there was serious disease among the moose of the New Brunswick and Maine areas, we broke the disease cycle. Our moose have been free of any serious disease, and I am sure if either of our two guests should come to Newfoundland, the Premier would be glad to give them a chance of getting one of their own moose.

Hon. Mr. Hatfield: You can take one home.

Senator Rowe: I have the impression that the population of Maine has remained more static in recent years.

Governor Curtis: Yes, very much so. It has a very small growth rate.

Senator Rowe: What is the population at the present time?

Governor Curtis: The population is somewhere around 1,020,000.

Senator Rowe: The population of New Brunswick is roughly three-quarters of a million.

Hon. Mr. Hatfield: Six hundred and eighty thousand.

Senator Rowe: So the population of the total area has remained more or less static in recent years. This, in itself, could be significant.

I know one community common to both the state and the province. Are there other communities, as well, Premier Hatfield, that are on or at the border?

Hon. Mr. Hatfield: There are many places on the border. I shouldn't say many, but there are several.

Senator Rowe: This applies to Quebec, as well.

Governor Curtis: There is not as great a population on the Canadian border on the Quebec side as there is on the New Brunswick side.

Senator Rowe: I should know the answer to this, but I don't. In our case, much of the boundary between the Province of Newfoundland and the Province of Quebec is a topographical boundary. It is the height of land. For a great deal of that distance the rivers flow across Quebec into Hudson's Bay or into the Atlantic. What determines the boundary between New Brunswick and Maine? Are there rivers that the two hold in common?

Governor Curtis: Maine and New Brunswick are pretty much separated by the Saint John River, but as to Maine and Quebec, it is pretty hard to tell.

Senator Rowe: They overlap. This leads me to the other situation: Are there instances of joint development, say hydro or any other economic development—that is, joint in the sense that the Governments of Maine and New Brunswick, or Maine and Quebec, come together to enable a development to take place?

Governor Curtis: I do not think so. The nearest would be the Dickey-Lincoln Project on the Saint John River.

Hon. Mr. Hatfield: But any hydro development on the Saint John River has to have the agreement of Maine and Quebec, and the International Joint Commission.

Governor Curtis: We have a private enterprise, the Fraser Paper Mill, that is half in Edmunston and half in Madawaska.

Senator Rowe: Can Maine and New Brunswick go ahead on their own, that is the two governments, without reference to either of their national governments in a project?

Hon. Mr. Hatfield: No.

Governor Curtis: In fact, anything to do with the rivers, environmental standards, pollution control, development agreements, are all under the jurisdiction of the International Joint Commission.

Senator McElman: There are, of course, current studies on the Saint John River. There are boards that have representatives from the provinces and the state and the two national governments. They are currently under way.

Mr. Chairman, Premier Hatfield has referred to the case of Continental Oil. I believe one of the important factors in their reaching a decision not to come to New Brunswick had to do, not with the overall federal policy respecting foreign investment, but the imposition of an oil tax at the federal level for pollution clean-up because of the ever present danger of spills resulting from shipments on a quantity basis. Continental Oil stated quite clearly that this was one of the serious factors in their decision.

Could you explain to the committee how the provincial government went about trying to convince the federal government of the seriousness of this, and whether the machinery worked? What action Continental Oil may have taken with their national government to try to work this out is also probably within your knowledge.

Hon. Mr. Hatfield: To answer the last part first, to my knowledge they did not in any way take any step with regard to the government in Washington and, in fact, were extremely reluctant even to meet with the federal government in Canada. They took the position that it was the right of any government to do anything it wanted to, especially the Government of Canada.

What the Government of New Brunswick did was put together our case and come up here to deal with the minister at the time. The reason, I think, was a perception on the part of Continental on the development of American oil companies in Canada that the problem of the pollution tax, or whatever you want to call it, was in fact removed by mutual agreement, and Continental knew that. But in spite of that, the board of directors, who made the final decision and who were not actually involved in the day-to-day discussion, decided they were just not going there.

They do say publicly that it was the pollution tax, but it is hard for me to defend that and, in fact, they knew that the pollution tax was not going to be a problem. I think it was.

An hon. Senator: Thank you very much, Mr. Premier, you certainly fixed us up on that occasion, but what about the next one and the one after that? How long are you going to be there? How long are we going to have support in Fredericton? We have all this uncertainty for a \$60 million investment, and now it is probably a \$200 million investment, to do the same thing.

Senator McElman: As I recall, it was at the crucial point of your negotiations with Continental when the legislation on oil pollution tax was brought in at Ottawa and it was known publicly the you and Continental were negotiating. Did you have any approach from the federal authority, before they brought in this tax, to inquire if this would have any effect upon you negotiations?

Hon. Mr. Hatfield: No. The law allowing the government to impose this tax went through the House of Commons and somewhere along the line this was picked up in New Brunswick. Continental was in fact advised of it. It seems to me their position was, again that they would not object to a law being passed by the government of Canada. I think, also, they did not think it was going to be as restrictive as it was. It was public knowledge and another

refiner in New Brunswick came up here and opposed it. I think he was the only one.

Senator McElman: It was very important to the economic development of New Brunswick and a key to a much larger development of New Brunswick and a key to a much larger development in which New Brunswick was involved. Do you not think that in such instances, where it is common knowledge, public knowledge, that the federal authority has some responsibility to initiate discussions, rather than getting reactions from the provinces?

Hon. Mr. Hatfield: I do; yes. I feel that they should, and they should take a stronger initiative in making sure the provinces are informed of actions taken by other countries as well. Take the Autopact, for example, they should be telling every province what is going on. The only way you can find out, I suppose, is to call and ask them. They should take the initiative to keep us informed of these things, but they do not.

As far as the pollution tax is concerned, it was public knowledge they were going to put the tax on. Before they made the final decision as to what the tax would be, they should have consulted because it was obviously not well thought out. The evidence of that is that there was an understanding that it would be reduced. I often wonder how much money they have now. They must have enough.

Senator McElman: For the information of the committee, perhaps it should be said that the Continental refinery was the key to a deep-water development in New Brunswick. The programming was that although it would be located in New Brunswick for the use of deep-water facilities, which are not available in the New England states to the same degree, the output of the production of that refinery was to go largely to the New England states, and it was for this reason I wondered if there was any position of the U.S. authority on it.

The Chairman: Excuse me, Senator McElman. I was letting you interject on a supplemental. I had Senator Cameron first. I will get back to you, if you wish.

Senator Thompson: Could I follow on the supplementary in connection with Continental?

The Chairman: Yes, when we deal with the Continental question, if that is satisfactory to you, Senator Cameron.

Senator McElman: I have one more specific instance. Premier Hatfield and Governor Curtis can give us some specific information on the mechanism that I would like to get back to.

The Chairman: Senator Thompson?

Senator Thompson: Premier Hatfield, I was interested in your remark in connection with Continental. I understood one of the factors was possibly that in New Brunswick the foreign investment review legislation—

Hon. Mr. Hatfield: I do not think that was current at that time. It was the unilateral policy decisions of the Government of Canada, without any explanation or defence which disturbed them. They were also involved with Denison Mines. You know what happened there.

Senator Thompson: Yes. Did you say that you feel because of the uncertainty, the length of time and lack of ground rules made public by Cabinet, that there are some

industries that have not located or would not locate in New Brunswick?

Hon. Mr. Hatfield: I cannot cite a specific case where a company has said they had made up their mind to come but, because of looking at the Foreign Investment Review Act, they are not going to come.

What concerns me is that you will never know. It is extremely difficult to get companies interested in relocating in the Maritime region, but you will never get their interest if they have become aware. I have had bankers in the United States, for example, tell me they do not want to invest in Canada because of that concern, and since the Foreign Investment Review Act was passed it has received a lot of publicity. Another thing that did a lot of damage to foreign investments was the take-over of Texas Gulf which certainly came across to a large percentage of the American public as some kind of nationalization of a large oil company.

Senator Thompson: Could I direct my question to Governor Curtis? There are, as my colleague Senator Laird would say, the ultranationalists in your country expressing some concern over Arab money invested in banks, some islands, and so on. Assuming that it certainly became more national, and there was some kind of review by your national government concerning investment, where they were going to perhaps get control over major industries, would you share Premier Hatfield's apprehensions about investment coming to Maine if such legislation was passed nationally?

Governor Curtis: If it reached the point, for instance, where Arab money—since that is the only place where there is a lot of money these days—would buy up, say, the entire sugar industry, to the point where they would control it, I guess probably I would take a more national point of view in favour of this, but I would want to be awfully sure that we had reached that point.

I come from, an area much like New Brunswick, a capital-poor area where we have difficulty in attracting investment. It would seem to me if it were a dispute between some of the major corporations as to whether or not Middle East money were to come into the United States that would be one matter. I might question being patriotic to the extent to which our people have to suffer so that a domestic corporation could enjoy the dominance of a particular market. It is a question of degree, of how serious that threat becomes. I think the premier would agree with me that if it has reached the extent where it is a genuine immediate threat to the wellbeing of the country, he would certainly favour it. I think it is a definition of the threat.

The Chairman: Senator Cameron?

Senator Cameron: Mr. Chairman, one of the evolutionary developments in recent years is the growth of regionalism and the establishment of machinery to deal with this problem of economic growth. I believe you have an Atlantic Premiers' Conference.

Hon. Mr. Hatfield: Maritime Conference.

Senator Cameron: Is there an American equivalent?

Mr. Curtis: Yes, it is the New England Governors' Conference. In fact, all the regions of the country have broken into conferences now.

Senator Cameron: You obviously have your own methods. You have the Governors' Conference and the Premiers' Conference. Is there a meeting between the two?

Hon. Mr. Hatfield: Yes.

Senator Cameron: How frequently?

Hon. Mr. Hatfield: Once a year.

Senator Cameron: How long has that been in effect?

Hon. Mr. Hatfield: Three years. This is the third year.

Senator Cameron: Are you finding rapid beneficial effects from this interchange of ideas that comes back?

Governor Curtis: Not rapid.

Hon. Mr. Hatfield: No, not rapid. But I think there is enough progress being made to justify maintaining this structure and there are signs emerging now that we will be able to do more. We are not trying to solve the problems of the world, just a few little ones that we have.

Senator Cameron: You have an organization known as the Atlantic Development Council?

Hon. Mr. Hatfield: Yes.

Senator Cameron: Is there an American equivalent?

Governor Curtis: No, I am pretty sure there is not. We have various federal programs that make funds available from time to time to areas that need a specific criterion, such as the Economic Development Administration.

Hon. Mr. Hatfield: I think that the Atlantic Development Council is closer to your New England Development Council.

Governor Curtis: Yes. They have funds.

Hon. Mr. Hatfield: Yes; it is federally financed.

Governor Curtis: The New England Council does not; it is an association of businessmen.

Hon. Mr. Hatfield: But they are both advisory.

Governor Curtis: Yes.

The Chairman: Senator Rowe.

Senator Rowe: Mr. Chairman, I was interested last night in hearing what Ambassador Porter had to say. He made a point that I had not known and I take it at face value, which is that Canadian investment or the investment of Canadian money in the United States on a per capita basis is greater than the investment of American money in Canada on a per capita basis. It seems to me a very significant point. I have never heard that stated before, and I am really surprised.

It does remind me of something else which is of interest. Several years ago, when I was a minister in the government, somebody came to me very much exercised over the fact that Americans were coming into Newfoundland and buying up land. This person was soliciting my support in a campaign to do something about it. I made some inquiries and, again, I was surprised to find that I would have been on a sticky wicket because I found that we had more Newfoundlanders who had bought up land in Florida than there were Americans who bought land in Newfoundland.

Senator Cameron: Smart people!

Senator Rowe: Which brings me to this question: Is there Maine money, as distinguished from the rest of the United States, invested in New Brunswick and vice versa? Are there instances where, for example, Maine firms have branches in New Brunswick and New Brunswick firms have branches in Maine? What degree of reciprocity is there?

Governor Curtis: I think it is small. I do not think there are a great number of major investments. There are co-operate firms such as Fraser Paper Company.

Hon. Mr. Hatfield: The Dead River Company invested in both provinces. There is Irving. Georgia Pacific is in both provinces now.

Senator Rowe: Is there much evidence that residents of Maine, for example—and I do not see why they would—were buying up land in New Brunswick, or vice versa?

Hon. Mr. Hatfield: I do not think so.

Governor Curtis: Other than buying some of the salmon rights on your rivers and some recreation properties, I do not think it is very much.

Senator Rowe: I toured Nova Scotia last fall with a senatorial friend and he told me of case after case where Americans had come in and bought land for summer residences in Nova Scotia. I wondered if that had happened to any degree in New Brunswick, as well.

Governor Curtis: There is no question that recreation property, and particularly lake property, is becoming scarcer all the time in the State of Maine. I would expect it would be more apt to be people from southern Maine who are moving north to buy property, because the whole movement is going in that direction.

The Chairman: Thank you, Senator Rowe. We will come back to you, Senator McElman.

Senator McElman: Probably one of the instances, in reply to Senator Rowe, would have to be the forest industry. The Fraser Company, Dead River, Irving and others own freehold forest limits on both sides of the border and they have manufacturing interests on both sides of the border. Fraser, for instance, in Edmundston, New Brunswick, and Madawaska, Maine produce to a given level at their pulp mill on the Canadian side. There is a pipeline under the river, which forms the border, to their mill immediately adjacent in Maine, and they pump the product through for further development on that side.

The Chairman: Excuse me for interjecting, Senator McElman. Do they avoid some tariff at that point by increasing the value of the raw product on either side of the boundary?

Senator McElman: There are a number of things we have to do to avoid federal tariffs in our mutual economies that I suggest are best not spoken of in public. The forest industry, a prime example, employs people from both sides of the border in the same company operation. That is the example I would like to get to, because both Premier Hatfield and Governor Curtis were directly involved in an instance, that Premier Hatfield referred to briefly, when the so-called oil crisis developed and both countries reacted a bit precipitously.

Senator Flynn: You say "so-called"?

Senator McElman: When the oil crisis developed.

The Chairman: The crisis of cheap oil, anyway.

Senator McElman: A company in New Brunswick which has been supplying oil to the mill at Woodland, Maine, was refused a permit to continue to supply oil. The effect of this would have been, literally, to close down that mill. This would have had a serious effect on unemployment levels in your jurisdiction. What seemed to miss the attention of the federal authority was that it would have a tremendous economic effect upon New Brunswick and employment at the mill itself, but more particularly in the supply of raw product from New Brunswick. We cut a great deal of the pulpwood in New Brunswick to go into this mill.

I think it would be useful for each of the witnesses to explain what happened on his respective side of the border when this refusal happened. Perhaps Premier Hatfield could tell us of the discussions that he and Governor Curtis had in the first instance, and then how each of them approached his national government, what the machinery was, whether there was any consultation before this order, which obviously would affect both of them, why it failed, how it was put back on the rails, and so on.

Hon. Mr. Hatfield: As I said, I think we did have one telephone call and at that stage I believe there was a lot of work done at the official level, both between Fredericton and Ottawa, and Fredericton and Augusta, and also between Fredericton and the two companies involved, the oil company and the pulp and paper company.

On my part, I just made direct representations to the minister and to the chairman of the board. The difficulty was that the company had advised its employees, that they were going to close down because they were going to run out of oil; and there was no doubt about that, they were. There was no way they could get the oil through the allotment from the United States. The indication from the Government of Canada was they doubted they would give permission, but they never actually did refuse permission; they just would not make a decision. We had a chance to manoeuvre. It was not a matter of undoing something, as much as it was to stop something from being done which would be unfavourable. The worst fall-out of all would not have been the unemployment, but the destruction of the relationship between Maine and the province. It is important to understand that this was going to happen on Christmas eve. I just try to make all these points.

They had given a permit to the same oil company to supply Madawaska, and they said it was because the plant would shut down in New Brunswick if they did not. I said, "Surely, the law isn't directed at keeping plants operating without people? It is to keep people operating. People are going to lose their jobs in Edmundston. They have protected those jobs in Edmundston; now people are going to lose their jobs in Charlotte County and York County, and you must protect those jobs." They thought that made some sense, but they were not sure because they were interpreting the law and saying they had an obligation to keep the plants operating.

Senator McElman: You said you made direct contact with the chairman of the board. That would be the National Energy Board?

Hon. Mr. Hatfield: Yes.

Senator McElman: Is that the only machinery?

Hon. Mr. Hatfield: Yes. I made phone calls to both of them.

Governor Curtis: And the minister?

Hon. Mr. Hatfield: Yes.

Senator McElman: That would be the Minister of Energy, Mines and Resources?

Hon. Mr. Hatfield: Yes, Mr. MacDonald.

Governor Curtis: There were 4,500 jobs in jeopardy; the company was down to two weeks' supply of oil. It was a situation where a New Brunswick based refiner had a long-term contract with the paper company and had the oil and wanted to supply it. It was just simply the question of a permit. From the state's standpoint, again, the paper company had indicated to us that they were negotiating very heavily with the refiner; the oil was there and they had been going through their channels to try and help get the permit. The refiner was doing everything he possibly could with his government to try to deliver the oil. It was just one of those situations of having to break what appeared to be a bottleneck. From the state's standpoint, we worked pretty much through our congressional delegation in Washington, who took the matter up with the United States State Department.

Again, I think this is an example of what we were trying to say earlier, having a friendly relationship on an informal basis. I simply called the Premier and asked if he could help a little on his side in making an appeal to the national government. He was on vacation at the time.

Hon. Mr. Hatfield: I was leaving.

Governor Curtis: But he certainly went right to work for us. We were very grateful. It did involve a lot of jobs on both sides.

I was just going to add one other brief point that indicates again how informal cooperation can work in the supply of jobs to our people. The Georgia Pacific has a large papermill in Woodland on the United States side of the border. It receives a great deal of its raw materials from New Brunswick, and I joined the premier in encouraging Georgia Pacific, to build a plywood plant in New Brunswick. This created a sort of tri-partite type of benefit. New Brunswick would not have a total outflow of wood, but would derive more benefits from their own wood. Accordingly, this ensured a long-term agreement for New Brunswick to continue to supply wood to the papermill in the U.S. I think this type of arrangement gives us the opportunity to examine arrangements that are good for everybody on a long-term basis, rather than being selfish on a short-term basis.

The Chairman: May I interject on one or two points that I have on my mind, Senator McElman?

You mentioned that the oil was being supplied on a long-term contract. I just wanted to be quite sure I got that correctly. Usually natural gas, for instance, will be on a long-term contract. Oil is normally sold on a spot basis, or 30 days.

Governor Curtis: It was, I believe, a contract. I do not know the specifics or over what period of time.

The Chairman: I have one other question that is probably best put to you, Mr. Hatfield. As I understand the decision of the Canadian government, it was eventually

based wholly on the loss of jobs in Canada, not the loss of jobs in Maine.

Hon. Mr. Hatfield: I would think so. It was only based on my conversation with the National Energy Board that led me to believe that they were interpreting the regulations far too strictly. Whether they did in fact find more oil or a supply situation in the East, or something, or whether they got more reliable information—and I think this is more likely—it involved the other end of the country, as well, both Oregon and British Columbia; they had the same problem out there. We were getting caught in this.

The Chairman: Did a question of pro rata protection of oil on both sides of the line enter into the conversation?

Hon. Mr. Hatfield: Not in my conversation. It certainly entered into the problem. It was part of the problem, the pro rata distribution between Canada and the United States.

The Chairman: There was a shortage and they were threatening to cut off their supply to Maine. Was there a question of reducing the supply on both sides of the boundary so both would be injured proportionately?

Hon. Mr. Hatfield: I do not think so.

The Chairman: That did not enter into the discussions?

Hon. Mr. Hatfield: We had a surplus situation, as compared to Maine. Maine was really in a serious situation. This is why they could not get more under the allotment.

Governor Curtis: There was no oil available at that particular time. We tried to go through our own machinery to get another shipment through the federal allocation act, but that particular moment was when we were driest in the United States. This is, again, a good example to point out the interdependency that exists between the regions. At the particular time this arguing was going on about freeing a little bit of oil to keep us in business, Quebec and Montreal were entirely dependent on the port of Portland to move a product through three pipelines to keep warm. Somewhere, in this whole argument, was lost the interdependency relationship that exists in the eastern provinces.

The Chairman: Which is what concerns some of us.

Sorry, Senator McElman, I interrupted you, and I did not mean to go so far.

Senator McElman: We have been talking about irritants in the two countries, and this is a first-rate example of an irritant developing. Perhaps we should pursue it as far as we can to determine whether the machinery is there and if it is being properly used to avoid the irritants in advance, or whether we are merely reacting to them after they develop. Granted this was a matter of national policy at that time, but the effect of the decision that, perhaps, the permit would not be issued obviously had a great deal to do with the Government of New Brunswick and the Government of the State of Maine. Was there any contact before they advised the oil company and perhaps the oil company advised the mill that they would not be getting their supply of oil?

Hon. Mr. Hatfield: I was advised by the company that we were headed in that direction, and I believe I wrote a letter to the National Energy Board supporting the company getting a permit. I have written several letters about

that, but I am sure that was the first time. I must say, when I was advised, I just took for granted there would be no problem. When it became serious, and the governor called me, as I said, I was extremely concerned about the relationship between Maine and New Brunswick. I do not think that was a factor at all in Ottawa.

Senator McElman: You had to learn of it from the oil company. This is the point.

Hon. Mr. Hatfield: That is right.

Senator McElman: There was no approach to your government from the National Energy Board or the department, in advance, to suggest that this was upcoming and would you have any thoughts on it?

Hon. Mr. Hatfield: That is right. Also, for example, I learned from Governor Curtis there was a boundary dispute between Maine and New Brunswick. I do not know how many people in the governments of Maine and New Brunswick were aware of that fact. I do not mean a boundary dispute between Maine and New Brunswick; I mean a boundary dispute between Canada and the United States.

I think the only time we raised the hair of the two federal departments was when Governor Curtis wrote a letter to the Secretary of State and I wrote one to the Secretary of State for External Affairs, and neither was very happy about the fact that we would stick our nose into their business. Yet, it still is not resolved; and it should be.

Senator McElman: The Machias Island.

Hon. Mr. Hatfield: Exactly. Seal Island.

The Chairman: On that point could I again interrupt you, Senator McElman, so as to pursue this? We had a witness, Mr. Smith, who was in charge of Canadian affairs in the State Department. He was a witness here a week or two ago. He used this particular example as something that might possibly be settled by arbitration. We were discussing at that point the possibility of arbitration and the use of the International Joint Commission, which has been very successful over the last 65 years in managing our boundary waters. Have either of you any views about the possibility of arbitration as a mechanism used to settle this particular dispute over your boundary problems? I gather it is not an immense and pressing day-to-day problem, or you, as a New Brunswicker, would have knows about it before becoming premier.

Hon. Mr. Hatfield: That is true. It is certainly not one that flared-up in the press, except there was some dispute about fishing rights at one time and there was a bit of gunfire, I believe, in that area.

Governor Curtis: That is periodic and occurs every so many years.

Hon. Mr. Hatfield: Where it becomes extremely important, and we have known for some time it is extremely important, is with regard to offshore oil. There are licences out in that particular area, some given by Canada and some, I suspect, given by the United States. Before they discover oil, they had better settle the boundaries. That is the urgency of it at the moment. I understand that the latest proposal being floated is that the matter be referred to the World Court at The Hague.

The Chairman: It is not a legal problem.

Hon. Mr. Hatfield: I just find it hard to believe that we would have to resort to that. I think perhaps the problem is that the two respective federal agencies do not take it seriously and really have not settled down to do anything.

The Chairman: I might just interject here that we have a similar problem on the west coast.

Hon. Mr. Hatfield: Why cannot they just settle those boundaries one at a time?

The Chairman: I think they can. I simply mention that to say that I do not think it is a thing that is not now taken seriously. From our point of view, it affects fishing, as well as oil. Have you any comments on it?

Governor Curtis: Before I touch on it, I would like to make one point before we leave the problem of last winter on the oil permit. I would not want this testimony to infer anywhere along the line that I am being critical of the Canadian government, and the overall problems that they had in the energy crisis of last winter, without saying that certainly the United States was partially at fault for an oil policy that existed for a number of years that got us into the situation in the first place. The only criticism that might be levelled is as to how that one incident was handled, but not the overall oil problem that existed. We have our share of blame.

The Chairman: In fairness to governments, they were dealing with a crisis situation, and a very difficult one.

Governor Curtis: On the boundary question, it was somewhere around 1968, as I recall, that we got into the situation where it came to our attention at the state level that the Canadian government was issuing some type of exploratory permit to oil companies to possibly drill on lands that we had always assumed to be part of the United States. We rolled up all our maps and went down to the State Department in Washington and asked, "What is going on?" Out of that came some sort of informal agreement that exploration but no drilling would take place in these particular areas until the boundary question was settled. At that particular time we were led to believe that the usual machinery for settling boundary disputes and questions of this sort was in effect, and that the respective federal governments would work on it.

Years have gone by, and I was at a meeting at the White House before I left office where the Secretary of the Interior was talking about accelerating the leases for actually drilling in the Gulf of Maine, and I raised the point, again, that it would seem to me, before we sink too many holes, it would be fairly helpful to establish where this line is, in the hope that maybe if we did find oil we would not get into a real dispute between the United States and Canada as to who owns some of the rich oil lands. It seemed at that time it was almost like a new subject had been opened. It really was not. We had been on it almost on six months' intervals, suggesting something be done. We were not taking a strong position one way or the other.

My own impression has been a reluctance to deal with these separately, feeling that whatever precedent is used for the settlement would apply to the other coast. Whatever precedent you use, somebody loses on each end. The countries do not lose, but one of the provinces or states loses. Apparently the federal government does not want to make that decision.

The Chairman: You would hold the view that it would be better to settle the problem before you find the oil, rather than after?

Hon. Mr. Hatfield: Yes.

Governor Curtis: Knowing the way the oil companies go after deposits, I would definitely say yes.

The Chairman: My personal feeling is that I would hate to think of the difficulty of dividing up the North Sea today, as opposed to when the boundaries between Norway, England, Holland, Belgium and Germany were divided many years ago before the oil was discovered.

Senator Fergusson: Is there much of an area involved in this dispute? Is it all under water?

Governor Curtis: It is all under water. I guess somewhere around three to five million acres.

Senator Rowe: How long is the Maine coastline?

Governor Curtis: That is a good question. Depending whether it is high tide or low tide, I guess, I would say somewhere around 3,100 miles. Some say over 4,000.

Senator Laird: That is going in and out.

Governor Curtis: In and out.

Senator Cameron: Has any final decision been made on the extent of the offshore rights of this area?

Governor Curtis: We have a case pending, *The United States v. The State of Maine*, in the Supreme Court, first of all to establish federal and state ownership of the submerged lands. If we were to win that case, I do not know how this would work; we would almost be negotiating through the treaty provisions of the Constitution with the Canadian government, between the state and the Canadian government, over ownership, which is a unique legal problem.

Senator Connolly: Ownership is one thing and jurisdiction is really another.

Governor Curtis: Yes. But we instituted the suit between the United States and Maine to solve that problem which had been outstanding for many, many years. It seems to me that time has been running out. I like the suggestion of arbitration, although I have nothing to say about it, obviously. It is all in the State Department. I think we have said informally many times that perhaps if the states and provinces were allowed to try to negotiate this, we might be able to do it a lot quicker on an individual basis than is being done.

Senator Flynn: The boundary problems you have mentioned, are they indicative of an attitude of both Ottawa and Washington to ignore the interests of the province and of the state when trying to deal with these matters?

Governor Curtis: It is still a question that if it were only one side of the country, you could move a lot faster. I think the problem is to decide if you take land away from New Brunswick and give it to British Columbia, and vice versa.

Senator Flynn: The two federal governments are ignoring you. You are probably more aware of the solution or the immediate question in these cases than the federal government.

Governor Curtis: I think this is one of the problems of being a rather small, underdeveloped state. From our standpoint, it is very difficult to generate the political power to get the attention of the federal government in so many instances.

Senator Flynn: Is it because the federal government is very jealous of its jurisdictions as it appears to be in Canada?

Governor Curtis: I think it is one of the difficulties of a democracy, in that we do not have the power in our part of the country that exists in Texas, California and New York, so the government yields to where the power is and we get left out.

Senator Flynn: Would Premier Hatfield say that it is the same situation in comparing the Ontario government with Quebec's?

Hon. Mr. Hatfield: Exactly; our absence of political clout is phenomenal.

The Chairman: Senator Thompson.

Senator Thompson: Mr. Chairman, I say with some apprehension that I come from Toronto. I am following on Senator McElman's question, the External Affairs coordination bureau and the embassy, as I understand, have a senior consul to advise the Canadian Embassy in Washington and to advise New Brunswick of any developments. Are these mechanisms used?

Hon. Mr. Hatfield: We are not aware of anything in Washington. Do you mean that they would advise Canada as a whole?

The Chairman: No. I might just elucidate on Senator Thompson's question. Ontario moved at one point some years ago to establish an office in Washington and they eventually settled with the Government of Canada that there would be an Ontario man, who is an employee of External Affairs, not of Ontario, in the embassy to report to Ontario things of interest to Ontario that were developing in Washington. Those reports are made through External Affairs, so it is an arrangement that is wholly under the umbrella of External Affairs. You do not have a similar mechanism?

Hon. Mr. Hatfield: No. Alberta, I believe, has the same arrangement. I do not support provinces having men in London, Washington and all over the place.

Senator Rowe: Mr. Chairman, does Premier Hatfield have anyone stationed in Maine or—

Hon. Mr. Hatfield: No.

Senator Rowe: There is no New Brunswick office, as such, in Maine?

Hon. Mr. Hatfield: No.

Senator Cameron: What about the "Republic of Madawaska"?

Hon. Mr. Hatfield: Our relations are fairly good there.

Senator Thompson: Would you support representation in Ottawa?

Hon. Mr. Hatfield: We would like to have more.

Senator Thompson: I am being facetious now. You said you do not support having any people in London or Washington?

Hon. Mr. Hatfield: We would like to have more men in Ottawa, yes, or women. Somewhere around 90 more would be nice.

Another area I thought would be asked about is the refinery which is under discussion in Maine and which is on the coast of Maine and New Brunswick. I would say it is a matter of concern to us in New Brunswick who are, again, concerned about good relations in our province and the state, whereby something should be worked out by the Government of Canada so that it does not interfere with a state agency when it is trying to make a decision as to whether or not they will permit development, even though it does affect Canada.

The case here is that many people believe that it is not sound to have oil being navigated through a Canadian channel to supply an American company. Whether or not that American company is ever going to get established at that site, first of all, is going to be determined by the State of Maine and an agency of the State of Maine. I must say that I did not appreciate the Government of Canada expressing its opinion publicly on that application. I think a policy should be worked out in that regard. Although I would support the view, I do not think it should have been stated publicly. I believe one of the public men in Maine expressed an opinion opposed to it, did he not?

Governor Curtis: Yes.

Hon. Mr. Hatfield: In spite of the fact that the senator from Maine said he was opposed to it, I do not think we should have said publicly that we were opposed to it.

Governor Curtis: I try to be very impartial as far as the legal rights of the company are concerned to establish a refinery in that particular area. But as a private citizen I think I can say, without danger of jeopardizing their legal rights, that I think it is a terrible idea that they have in mind for the State of Maine, as well as New Brunswick.

The point that Premier Hatfield made is a good one. It is a question of at what point does the Canadian government intervene? We had a serious problem within our own board as to whether or not we should entertain the application, knowing there was Canadian opposition in the courts. I, personally, think that our first decision at the state level was wrong, that we should have just gone ahead and not taken into consideration the Canadian opposition until it had ripened to the point that the Canadian government could properly resort to the courts or other machinery to impose their own interest. In fact, our public stand at the state level had been one of defending the right of the Canadian government, at the proper time, to use whatever legal rights to oppose the refinery and put forward their own interests.

Hon. Mr. Hatfield: But the Canadian public statements certainly aggravated the elected representative in that area and, to a large extent, the people in that area. The position that was taken was that the only reason Canada is opposed to it is because they want the refinery on their side of the border. That is not a very nice thing to get going.

I think this is going to happen more and more with these environmental councils and agencies with powers to determine these sorts of things, whether it be nuclear power, oil or what-have-you. I think some sort of policy should be

worked out by the Government of Canada as to when it should intercede.

Senator McElman: This involves, of course, the national policy with respect to controlling the danger of oil spills.

Hon. Mr. Hatfield: Yes.

Senator McElman: It applies on the West Coast with respect to shipping from Valdez through our waters, as it does in New Brunswick. As Premier Hatfield has said, the route comes through a highly dangerous area where there are tremendous tides and currents. There is a very valid concern. An oil spill would be disastrous, particularly to New Brunswick, the Fundy fishery and the tourism area, the shorelines, and so on.

Again, it comes back to an understanding of the machinery of pre-consultation. In this case, Premier Hatfield, because it was New Brunswick's coastline, because it was New Brunswick's fishery, was there any approach made to the Government of New Brunswick before they made their intervention?

Hon. Mr. Hatfield: No. Again it was the other way, in that I tried to get word to Ottawa not to make a public statement. That advice was not heeded.

What I could never understand about issuing that statement is that all it really did, in my view, was to give us a chance to take some kind of public posture on the question which looked good from our point of view. It is good to be against pollution, for example, but the other thing was that I think we have control over the situation. Whether or not oil goes through that channel is our decision. We had an ultimate weapon there. I do not know why we had to get involved in the debate that was going on within the State of Maine as to whether or not it should be there. In that particular area there are people who are opposed to it and they are very vocal in their opposition to it. I did not think we should have become involved, and it is going to crop up again. It could crop up on the construction of nuclear power plant. The people in the community near the border would say they do not want it there. It is going to affect them, and what will we do? They will intercede. Almost every state in the United States has these kinds of environmental bodies with powers to decide as to whether or not something is going to go ahead.

Senator McElman: Again, as with the Woodland situation, the irritants have developed publicly and, being what they are, politically elected people on each side of the border react. We had some of these incidents in Congress, a rather violent reaction, that perhaps the Portland-Montreal pipeline should be shut down and perhaps the U.S. should retaliate by not shutting it down, but by putting a tax on all of the oil that went through, and so on. The irritants come, and we react.

Hon. Mr. Hatfield: Yes.

Senator McElman: Could you give us your views on the machinery that now exists to avoid these irritants, to deal with them in advance? Can you tell us whether that machinery is being used properly; and, if it is not, how should it be used? If the machinery is not good enough, what should we do to improve it or replace it?

Hon. Mr. Hatfield: I do not know how you get into the actual idea of machinery because most of our relationships with the federal government are by telephone, by visit to

Ottawa, meetings arranged, and so on. In both of these cases, I suspect the reaction, first of all, is, "It is out of your jurisdiction," or, more crudely, "It is none of your business." I don't argue that. First of all, I think they should recognize the value of the kind of relationships that we have established and take them more seriously and trust and rely on them a little more than they do. Then it is a matter of just consulting when these things come up.

In the case of the Woodlands oil situation, they should have taken my initial letter or initial approach more seriously than they did. In that I pointed out there were Canadian jobs threatened in New Brunswick. It all sort of happened so quickly that I do not know how you could approve that. It just never occurred to me that they would issue a statement while knowing what our position was and what power we had, so to speak, in that particular situation.

I would suggest, as far as that is concerned, that there be a policy that External Affairs, the Government of Canada and the governments of the provinces simply not intercede until such time as the local authority, so to speak, that is the state, has determined whether or not they are going to go ahead with it. There is no point in opposing something that is never going to happen. A policy should be developed. I do not know how we can get a better relationship and better machinery if the jurisdiction with power determines to do something and they are going to do it. So it has to be a matter of agreement.

Senator Connolly: You are speaking now, Mr. Premier, I gather, of federal-provincial cooperation particularly in respect to matters that could be considered of an international character. I suppose that it is only over a long period of time, and perhaps it is far from perfect anyway, that in almost every realm of federal-provincial relations there is a tendency on the part of the central government to ignore, override, downgrade, downplay, the local, provincial interests. I suppose we are going to be faced with that as long as we have a federal state. I am sure the same is true in the United States. What you are arguing for is that there should be a greater awareness of the importance of communication between the two levels of government within the federal state in every aspect.

Governor Curtis: Speaking from our side, there is no question. For years, as governors we have felt that as far as the national government is concerned we are invited to Washington, it is sort of a very polite invitation, and we are informed what is going on, and we should be very grateful that we are being informed of what the federal policy is. No one really seems to care that much what we think about it.

Historically, this was brought about in the United States partially by the depression in the thirties and World War II, where the states really gave up a lot of their power and control to allow the federal government to take care of what was really a national emergency.

What really ties in with the testimony this morning is the importance of simplicity of relationship and communication, in that when something does develop and a few spokesmen start saying unfortunate things back and forth in the national media, if the premier and the governor have a good relationship they can get on the phone, discuss it themselves and then issue their own statements, putting out a lot of fires right on the spot. We can provide a great national service as governors and premiers by having that relationship.

It would have been a very easy thing for us to fan, politically, some of the disputes that developed, but instead we communicated several times on the telephone. At times when the premier would come to see me, the press would question him heavily. His statements were always very kind toward the Maine situation, which helped greatly in this area.

Senator Connolly: Do you not think there is a greater sensitivity on the part of the political element, than there is on the part of the Public Service to these questions? There is a ray there, a tentacle that is put out from a politician to feel. Maybe one way of saying it is this: these compacts are not watertight; sure, you give the federal authority jurisdiction in foreign affairs, but that does not mean a given province or a given state has not a very great and lively interest in a local aspect of a foreign affairs or international problem.

I come back again to the first statement that I made, that it could be that the disciplines within the federal department are so rigid that these new offices, these special local interests which are very important, perhaps even towards a solution of an international problem, are overridden because the government has the jurisdiction.

The premier mentions the question of shipping in a given channel. It may be that in the BNA Act shipping is a federal responsibility, but still there are local problems that can be affected by shipping. We know of the environmental problems which have become so important these days, and they are very much a local problem. I think environmental problems would probably tend to make the jurisdiction provincial, rather than federal, perhaps not from the shipping point of view but certainly from the point of view of damage to the water, damage to the land, damage to other local things that come under property and civil rights within the province. I think our opinions and our law are going to be shifting as new circumstances develop. The old and rigid compartmentalization that has sometimes characterized our thinking is done for.

The Chairman: I wonder if I could come back to the earlier questioning by Senator McElman, just to clarify one or two points, on the question of formal documentation. I can fully understand the simple commercial contract between the private power companies and a power company on the Canadian side, even though it is government-owned, still operating as an independent commission, and particularly as they are both subject to regulatory authorities on both sides and are entering into a contract that does not involve the federal governments. Then there are formal agreements such as the one you raised on forestry, approved by the two federal governments though negotiated by yourself. Are there any examples of other agreements that would not fall into those two categories, either purely commercial or those approved by the federal governments, that actually involve a signed piece of paper between the state and the province and without the intervention of the federal authority on either side?

Hon. Mr. Hatfield: The Civil Defence Disaster Agreement is an example. We both signed that, and I do not think either one of us has to author it.

Governor Curtis: We call it a mutual understanding, or something of this nature.

Senator Connolly: Would the premier tell us what it was? I am afraid I did not hear it.

Hon. Mr. Hatfield: Our two agencies got together. What is yours called?

Governor Curtis: Civil Defence.

Hon. Mr. Hatfield: Ours is called the Emergency Measures Organization. They got together and they had already exchanged the information—for example, both know what the other has in the way of equipment, men, resources, and so on—and then signed an agreement that should a disaster break out in New Brunswick, Maine will do so much, and if one breaks out in Maine, New Brunswick will do so much. That whole process is set in motion by a phone call between the two of us. I just phone up and say we need help, and the governor agrees. If the governor does not agree and says, "Tough, I am not going to spend my money!" that is the end of it; I have no recourse against that.

Senator Connolly: That would not be restricted, necessarily, to a defence emergency. I take it if there was a ship that foundered or there had been an oil spill, it would apply to that kind of problem as well, would it?

Hon. Mr. Hatfield: I do not know about an oil spill, but we certainly would hustle.

Governor Curtis: The basic idea of it was to let the directors know what equipment, material and personnel were available on each side of the boundary for planning purposes in dealing with it. Here again, is where a formalization would be handy. If we were to assemble a great deal of equipment, which is really owned by the federal government, and under our directives it was sent into New Brunswick for a long period of time, and we went back to the federal government to get reimbursed, I am sure some of the legal staff would say that they would like to pay us, but they could not because this was not an authorized use of equipment.

Senator Thompson: Is this on a formal basis? There have been changes; for example, you are no longer the Governor. Do you, Mr. Hatfield, phone the new governor and say, "We have had informal agreements on such-and-such"?

Hon. Mr. Hatfield: Not yet, but we are going to be getting together.

Senator Thompson: I think it is an extraordinarily refreshing thing to see two reasonable men, who work together on an informal basis, without trappings of government or anything, to the advantage of their own regions. I come from Belfast and you can get differences.

Hon. Mr. Hatfield: But then even international compacts will not work.

Senator Thompson: But it seems to me you feel that much more of this informal approach would be more effective.

Governor Curtis: There could be periods, as you point out, where governors and premiers are not interested and could not see the advantage in cooperating. But we have involved, I think, the departmental people to the extent that they are automatically working together on many programs. Bureaucracy is hard to tear down once you have built it, and in this instance we have built up a good bureaucracy.

Senator McElman: This understanding involves New Brunswick and Maine. Is there a similar arrangement with the Province of Quebec or perhaps a tri-partite arrangement as between New Brunswick, Quebec and Maine?

Governor Curtis: No.

Hon. Mr. Hatfield: There is one between Maine and Quebec.

Governor Curtis: Only on forest fires, but not on civil defence. Maybe there is.

Hon. Mr. Hatfield: No, but other agreements.

Governor Curtis: Yes.

Senator Flynn: How would you describe your relations with Quebec in comparison to your relations with New Brunswick?

Governor Curtis: We have had similar exchanges. I have met, on many occasions, with the prime minister, deputy premier, but I would say the avenues of the programs are different. The relationship with Quebec is more of a cultural type for the French-speaking heritage that exists in Maine and the desire to continue that. We have exchanges of teachers, symphonies, different programs like this; whereas I think the relationship between Maine and New Brunswick is more economy based.

Senator Flynn: Tourism, of course, between Quebec and Maine is a very important factor.

Governor Curtis: Very large. In fact, out of some of these relations came the impetus which led to the approval of both the United States and Canada of air service between Montreal, Portland, Bangor and Halifax.

Senator Flynn: Even Quebec City.

Governor Curtis: Yes. It really not only enhances business opportunity, but tourism opportunity as well.

Senator McElman: You have said that at the regional conferences there are representatives of the two national governments present as observers. Have you at any point received suggestions, formal or otherwise, that any of the arrangements, discussions, agreements that you have made may have been infringing upon the federal authority or prerogative?

Governor Curtis: From my standpoint, I have actually received from our observers, not written but verbal encouragement to continue. They thought, from the meetings I went to, it was a very unique and very good idea and they hoped that we would continue this.

Senator McElman: Although these are matters strictly between the two, considering the traditional way of doing things as between countries, you do not consider these to be infringements upon the rights of the federal authority?

Governor Curtis: No. It is a practical matter. As long as we do not violate our Constitution, there is not much they can do about it anyway.

Senator McElman: Coming back to the matter of the irritant in the machinery, Premier Hatfield, you have a secretariat on federal-provincial relations. Do you feel that, because of these irritants that arise so often affecting New Brunswick and its relations with Maine, it would be of any value to have your man in Ottawa, someone from your secretariat, perhaps a desk in External Affairs?

Would it improve in any way the pre-consultation process to avoid the public irritants?

Hon. Mr. Hatfield: I am not sure. I certainly would welcome External Affairs setting up a desk to deal with New England-Eastern Canada problems. I do not think that New Brunswick as such should have one, but I think there should be one to represent and take more seriously this relationship that I think is developing, that is going to grow and might get tough. Who knows where it might go? I think it would be worthwhile perhaps at that level to have one.

Senator Connolly: Do you mind defining the problem again? I just did not hear you. You say the Maritimes and New England?

Hon. Mr. Hatfield: Yes. The five eastern provinces, Quebec and the four Atlantic provinces, and the six New England governors.

Senator Connolly: Generally in their relationship one with the other—is that it?

Senator McElman: They have a conference.

Hon. Mr. Hatfield: We have a conference every year.

The Chairman: They have their own secretariat set up.

Senator McElman: I notice that at the recent Maritime premiers' meeting there was discussion about the great drawdown on human resources in having so many conferences being held here, there and all over the place. Perhaps I could just pursue the previous question. Would it be of any advantage if the Maritime provinces, or indeed the Atlantic provinces, selected a man in federal-provincial relations who would be their desk man in External Affairs?

Hon. Mr. Hatfield: That is worthwhile considering. I have not thought about it, but it is certainly worthwhile considering.

Senator McElman: I think this might perhaps improve the liaison, to avoid the problems we have had.

Senator Connolly: Is there enough business to occupy a full time employee?

Hon. Mr. Hatfield: Maybe not at the moment, but, as I said, I think this relationship will grow in the areas of trade, tourism, and energy most of all.

Senator Connolly: Culturally.

Senator Flynn: Natural resources.

The Chairman: Honourable senators, I do not want to keep our guests longer than we need, although I am sure they would be willing to continue if you have further questions. However, it would seem we have reasonably exhausted the subject. Are there any further questions that you have, Senator McElman?

Senator McElman: No.

Hon. Mr. Hatfield: Mr. Chairman, it has been very well worthwhile to have had this opportunity to put our views across, and we certainly appreciate your invitation to do so.

The Chairman: Thank you, Mr. Premier. I would like to thank both yourself and Governor Curtis for the time and trouble you have taken to come here, because this has been one of our most helpful meetings to date.

Hon. Senators: Hear, hear.

Hon. Mr. Hatfield: Thank you.

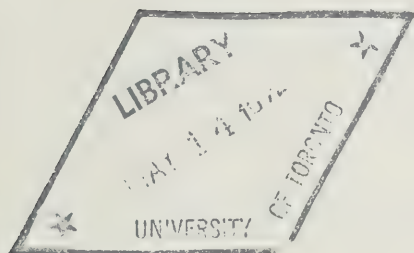
The committee adjourned.



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*



Issue No. 8

TUESDAY, MARCH 4, 1975

Seventh Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, March 4, 1975.

(11)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2:35 this day.

Present: The Honourable Senators Bélisle, Cameron, Carter, Connolly (*Ottawa West*), Croll, Grosart, Lafond, Macnaughton, McNamara and van Roggen. (10)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee; and Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade.

The Committee continued its study of Canadian Relations with the United States.

Witness: The Honourable Jack Davis, Vancouver B.C., former Minister of Fisheries and of the Environment.

At 4:50 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 4, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 2:30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I have a particularly pleasant personal task this afternoon in introducing our guest, the Honourable Jack Davis, who is an old political friend of mine. I was active in his first nomination in 1962, and have worked closely with him since that time. I do not think it would give me any greater pleasure to introduce to this committee any other person in Canada.

Jack Davis needs little introduction to any of you. As you all know, he was Minister of Fisheries and of the Environment until his defeat in the July 1974 election, a defeat which, unquestionably, was a misfortune, in my judgment, for Canada. But we are the beneficiaries today in that he is able to appear before us as a free agent, recently but no longer a member of the cabinet.

The Honourable Jack Davis was first elected to the House of Commons in 1962, as I mentioned, and served as Parliamentary Secretary to the Prime Minister and the Honourable Jean-Luc Pépin, joining the ministry in 1968, if my memory serves me correctly.

By training, he is both an engineer and an economist, and holds a number of degrees. He said to me a few moments ago that it was while at Oxford as a Rhodes Scholar that he switched from being an engineer to being an economist.

He had a distinguished career during his time as a member of the cabinet and was responsible for a large range of subjects which had a direct bearing on Canadian relations with the United States, including all our boundary waters, air pollution, the coastal tanker problem, fishing rights, and so forth. We are all familiar with his great contribution during the Stockholm Conference and elsewhere, ending up with the Caracas Conference, in putting forth Canada's position with respect to the 200-mile limit, to the point where, we hope, it is soon to be accepted internationally.

I will not say anything more, Mr. Davis, other than to ask you, if you will, to proceed with your opening statement. Then, following your opening statement, Senator Macnaughton has kindly agreed to lead off the questioning.

The Honourable Jack Davis: Mr. Chairman, honourable senators, I should like to make two main points in my opening statement this afternoon. One is that Canada has a special relationship with the United States, a special relationship at all levels,—political, social and economic. The other point is that we must improve our liaison with our American friends. This is particularly true at the cabinet

level where foreign contacts, minister to minister, cannot only avoid misunderstandings at the top, but also hammer out policies which are acceptable on both sides of the international boundary line.

That we have a special relationship with the United States is, to me, obvious. The United States is not only big, but is our closest neighbour, and neighbours are always special. Next door neighbours are special in a special way. Next door neighbours who have a common heritage, speak the same language and think as we do on many issues are different from anyone else. They want to work with us, not against us. Canada-United States relations must be judged in this light, in this way.

Communications are often difficult, even between friends. They are increasingly difficult in a world in which bureaucracies, public and private, are taking over more of the functions once performed by little people. Big departments, often competing with each other, and layer upon layer of diplomats and technocrats have made easy relations often a thing of the past. The sight of big issues, frequently, is lost in a sea of words. Decisionmakers are kept apart. Both sides are agitated by endless static on the one hand and mountains of heavy reading on the other.

Perhaps it is because I am an engineer and not a career diplomat that I like to cut through this red tape by using the 'phone frequently and meeting face-to-face whenever I can. But I am convinced that good relations with the United States also means cabinet ministers talking to their opposite numbers frequently and with no holds barred. Otherwise, we are going to suffocate our special relationship; we are going to bureaucratize ourselves to death; we are going to make good neighbourliness difficult; we are going to put the common sense solutions of the individual aside and build a fence between ourselves and our American friends, which will not do anyone any good.

I realize that you will want me to talk about my own experiences as a Canadian cabinet minister. No problem. Prime Minister Trudeau gave me a free hand. I could talk freely with people such as the Honourable Russell Train when he was President Nixon's key man on environmental quality in the United States. I could talk at any time with the Honourable Donald L. McKernan when he was their number one man on fisheries. Naturally, I kept External Affairs informed. Often people from External Affairs were present, but not always. The important thing was to communicate—communicate with the U.S. Administration and with my colleagues in cabinet; communicate basically in the area of policy making, with details and protocol taking a back seat most, if not all, of the time.

There were occasions when two ministers went to Washington or two U.S. figures came here. For instance, the Honourable Mitchell Sharp, the then Secretary of State for External Affairs, and I met with the then U.S. Secretary of State, Rogers, in Washington in 1971 regarding the matter

of tankers on the West Coast. But these were exceptions rather than the rule. Generally, I went alone or with one or two officials, and essentially it was a one-on-one situation, whether the venue was Ottawa, Washington or London, for that matter.

I mentioned London. Mr. Train and I went to a number of conferences. We also met officially and unofficially in Brussels and Stockholm. On these occasions we went over our own lists of irritants and talked about policies of common concern for the future. We tried out ideas on each other. We got some feel, quickly, as to their political acceptability. Often we were able to narrow the field immensely. We were able to tell our officials, either then or when we got home, what many of the real parameters were. We did not leave them nervously groping for ideas and solutions in the political arena when access to the political arena was denied them in the first place.

What did we talk about, argue about, negotiate about, agree about? Let me give you a few examples:

1. The Great Lakes Water Quality Agreement:

The Great Lakes Water Quality Agreement was, and is, a major achievement. It is cleaning up the biggest international waterway on earth. All levels of government—national, regional and local—were involved, as was industry and transport. Targets were set and standards were developed. Follow-up procedures were established.

The job would have been tough enough in one country, let alone two, because it was precedent setting, and a lot of vested interests were at stake. Still, it came off, not only on paper but in fact. Canada and the United States, together, are now a long way down the road towards its realization.

Together we agreed to do a big job on pollution—pollution not only in Lake Erie, but in the other Great Lakes and their adjoining waterways.

The price tag, originally, was around \$3.5 billion—half a billion in Canada and \$3 billion, or six times as much, in the United States. I suggest that with inflation and a further tightening of standards, the ultimate figure may double those costs, making it \$1 billion for Canada and \$6 billion for the United States.

But, be that as it may, we pushed them harder than they pushed us. They were bigger and dirtier than we were—population in the basin, six times as many; industry, six times as many. So they had to put up the lion's share of the money. Also, they were lagging behind us, so deadlines were also necessary.

There was a lot of discussion, and innumerable meetings, especially at the official level. Ultimately, we came to an agreement. We agreed to do something about a problem which we had in common, a problem which the Canadian voter and the American voter regarded as serious and saw as serious at the same time and in much the same way.

It helped that our engineers and economists had read many of the same textbooks, gone to some of the same schools. That, together with officials, often back and forth across the line, and ministers who could pick up the phone and clear up misunderstandings helped no end. Suffice it to say, we did have a meeting of minds, an awful lot of minds.

In 1972 our heads of state signed an agreement, which is the next thing to a treaty. That is a good example of how something which might otherwise have hung around for a long time got off the ground before it was too late. It is also

a good example of how close neighbours, speaking each other's language, can do the next to impossible with a minimum of fuss all around.

2. Automobile Emissions:

If Canada can be said to have pushed the United States on the clean-up of the Great Lakes, the reverse is true of pollution abatement with respect to automobiles. I repeatedly told Mr. Train and Mr. Bill Ruckelshaus, who was then the President's appointee in charge of the U.S. Environmental Protection Agency, that in my opinion they were going too far too fast; that they were going to burn up a lot more fuel in the process and, in a circular way, create more pollution to cut down on pollution.

We, the three of us, Train, Ruckelshaus and I, discussed this issue a number of times both during our six monthly meetings in Ottawa and Washington and over the telephone. Naturally, I took the issue back to my own cabinet colleagues in Transport, Industry, Trade and Commerce and Energy, Mines and Resources.

Having their backing it wasn't necessary to go to full Cabinet. So I was able to talk both confidently and frequently with my American counterparts on this issue. They knew exactly where we stood from day to day. They knew that we would go part way down the road with them on pollution standards for new automobiles. They also knew, months ahead of time, when we were going to slacken speed and by how much.

For those of you who are wondering about the details, let me say briefly that we copied the United States standards in the early '70s, fell off the pace beginning with 1974 models, and are insisting on something short of the United States 1975 standards for 1976, 1977 and 1978. This gives us a 75 per cent clean-up as compared to a possible United States figure of 85 per cent at much lesser cost to the car user in Canada.

Senator Connolly: Much lesser the cost for the United States?

Hon. Mr. Davis: Much lesser cost to the owner of the automobile in Canada.

Senator Macnaughton: Canadian people.

Hon. Mr. Davis: Yes. Our standards do not require the vehicle to be equipped to anything like the same extent.

The Chairman: I think Senator Connolly meant the words "at much lesser cost" as related to the Canadian 75 per cent.

Senator Connolly: Yes, and to the owner of the automobile.

Hon. Mr. Davis: Yes, to the user.

3. Industrial Standards:

Pollution abatement in industry presented us with another problem. It was largely solved internationally, however, by us agreeing—that is, the Honourable Russell Train and I—that industry itself should pay the shot. Not government, not the taxpayer directly, but the companies themselves.

Of course, we had some cues. Trade negotiations over the years have frowned on subsidies. Agreements signed by Canada and the United States have tried to avoid situa-

tions where export industries were "helped" by the government in various ways. Knowing this, I decided, early on, that we could avoid difficulties with our trading partners if we resisted pressures to finance pollution abatement equipment and processes used by the private sector in this country. Fortunately budget limitations led quickly to the same basic policy approach to industrial clean-up financing in the United States.

A further comment re industry may be appropriate here. We agreed orally, but not in writing, to apply the same standards in our two countries. We agreed further, again orally, to concentrate on certain industries, the standards we developed in Canada—pulp and paper is an example—being used in the other country, in the United States, unless and/or until we developed a better standard of our own or they developed a better standard of their own. This avoids a duplication of effort in research and consultation with industry. It also allowed us in Canada to concentrate on those industries which were big polluters in our own eyes, and which—often—were also big exporters to the United States.

4. Pipelines:

I should mention pipelines, if only to make a point concerning the nature of the relationship I had personally with the key environmental people in the United States.

You will recall our common interest in a pipeline corridor down across Canada from Prudhoe Bay in Alaska to the United States Midwest and Chicago. Canada started its environmental studies in depth, beginning in 1971. By the summer of 1972 it was obvious to me that a clean line could be built down the McKenzie and across the Prairies. I told Messrs. Train and Ruckelshaus this orally at the time. I repeated this opinion, giving them rough cost estimates as they came in from the field.

Let me be very clear on this. I did not give hard data or written reports to these people; that is, to my opposite number in the United States. I expressed opinions and said they were my assessments only. That our technical people have substantiated these opinions in the work they did in 1973 and 1974 is of little importance now. What may be of interest to you, however, is that the United States President's top advisors on environmental matters were getting the same advice from Canada as the Prime Minister of Canada and his Cabinet were getting—and more or less simultaneously—namely, that a pipeline could be built down across Canada without too much damage being done to our environment. I was also saying, incidentally, that an express pipeline across Canada would be much less damaging environmentally than tanker movements down the West Coast.

5. The 200 Mile Limit:

Getting the United States to go for a 200-mile fishing zone has been a major achievement. Violently opposed when I first became Minister of Fisheries in 1968, Washington eventually changed its mind. At the 1974 Law of the Sea Conference in Caracas, Venezuela, the United States said that it supported the 200-mile "economic zone" concept in so far as fisheries were concerned. The United States was then, and still is, skeptical about shipping, offshore pollution and defence.

But the point I want to stress here is that we persuaded the United States that we were right on fisheries. We moved first; that is, ahead of the United States. We talked,

from 1968 onwards, about conservation. We said fish stocks were declining. We said that important species were being fished out. We said that to confine ourselves to narrow limits and allow long distance fishing nations like the U.S.S.R. to raid our shores was suicidal from an environmental point of view.

The environmental argument, the conservation argument, the naturalist argument, if I can call it that, struck a chord with people like Russell Train. It carried more weight than the social and commercial arguments combined. He joined us at the Stockholm Conference on the Human Environment in 1972 waving the flag on whales. He began to talk about natural habitats and the special interests of the coastal trade. His thoughts and those of other United States environmentalists started showing up in statements being made by, or on behalf of, the United States President himself.

Our Washington counterparts on the fisheries front were amazed at this sudden turn of events. The Pentagon was no longer the oracle concerning everything offshore. The continental shelf and slope took on real meaning, not only for oil and gas but for fish, the coastal states fish as well.

It would be wrong of me to claim sole credit for this. But our own people in External Affairs took a lot of convincing before they agreed we should be looking at waters outside our lesser bays and inlets. It was only when the environmental movement really got going here, and particularly in the United States, that the mood began to change in official Ottawa. It started with our preparations for the United Nations Conference in Stockholm late in 1971. The transformation was complete when I outlined Canada's position re the 200-mile limit at Caracas in July, 1974.

The United States, as I said, was with us then. And this was due, in no small measure, to liaison directly, minister to minister, across the international boundary line.

Of course, External Affairs helped. It did much of the staff work, with our biologists and engineers acting as observers and consultants. But we had a policy. That policy was well known. It was articulated clearly at the ministerial level. It got through to the political level in other countries. It was backed fully at home, and everyone knew that this was our policy abroad.

6. Concluding Remarks:

From what I have said, it is apparent that our system, in our Canadian system, has certain strengths and certain weaknesses. The strengths outnumber the weaknesses by a fair margin. However, I would like to touch on them both before I wind up my statement before you today.

First as to the strengths. They stem from our parliamentary system of government, our cabinet structure and our ease of communications at the top. I could see my Cabinet colleagues at any time. I could talk to them whenever I wanted to. I could see the Prime Minister at frequent intervals; informally at our daily question periods in the House of Commons; more formally half a dozen times a week at Cabinet committee meetings, in main Cabinet or at our Wednesday party caucus. As a minister I had every opportunity to develop policy, test out new ideas and to pass on suggestions and criticisms which came to me from the United States side of the line.

Our counterparts in the U.S.A. are at a disadvantage in this regard. Though they are appointed by the President and are often good personal friends and supporters of his,

they don't see him often. They may not even have cabinet rank. They may never meet with the President's cabinet as such. Though they have a pipeline in a manner of speaking, good or bad, to the President they can't always be sure of getting through to the policy makers in other departments.

As ministers, we in Canada are also M.P.s. We have to show up in the Commons. We have to show up in caucus. We have to listen to our constituents. Generally speaking, our opposite numbers in Washington do not. They get their political "feel" second-hand, not first-hand. They have to rely more on civil servants for this feel than we do. This is another weakness for them; a strength, relatively speaking, for us.

On the other side of the coin, weaknesses as opposed to strengths, I have to list our federal system of government. Under the British North America Act the provinces have a lot of power. They control property and land, for example. They own resources like timber, minerals and wild life. They have a major say in water matters. Health is mainly a provincial responsibility, and so, therefore, is air pollution, at least on a local, even regional, basis.

It well behooves us then to keep our provincial counterparts informed. More than that, we've got to listen to them, to marshal their ideas on policy, to develop a Canadian consensus and to make provincial people feel that they are much "in" in the international decision making process.

This is a tall order with 10 provinces and 2 territories with different cabinet responsibilities and governments of different political stripes. Still, we have done it and we can do it again.

I refer specifically to the Canada-Ontario Great Lakes Clean-up Agreement. It made the bigger agreement with the United States possible. I refer to our Canadian involvement in the Environment Conference in Stockholm in 1972. We talked to the provinces. We took their advice. We took their representatives along—most of them ministers. They sat in as official observers and key advisors at every stage.

There are several ways in which our federal-provincial "gap" can be overcome. One is frequent meetings of relevant ministers called by and chaired by the Federal Minister. Another is the ongoing Council of Resources and Environment Ministers chaired in rotation by the provinces. I took advantage of both. I called meetings and I attended meetings as the designated minister from Ottawa. Policy was made in this way and misunderstandings of the type that occur all too frequently between the federal government and the provinces were cleared up or avoided altogether.

Not everything was a bed of roses, of course. If I had to name the province that was most co-operative during my six years in office I would say Ontario followed by Alberta. Last on my list, I am sorry to say, is B.C. The Barrett government never sent a minister to any of these meetings of ministers. Instead the Premier went directly to Olympia, Seattle or Washington, D.C. Even correspondence with Victoria was difficult. It was a game, a political game, in their eyes. Getting together with Ottawa and with the other provinces seemed to be the farthest thing from their minds.

I could go on. Still your time is limited and I know you want to focus on Canada-United States relations. They are complicated but ministers can make them less complicated. They can deal directly with issues by working closely with their opposite numbers in the United States and the prov-

inces. I tried it and it worked. I recommend it as a practice for others to follow.

Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Davis.

Honourable senators, I am sure you will agree with me when I say that that is the typically forthright and pithy statement which one would expect from Jack Davis. It certainly opens up many interesting areas for us to pursue this afternoon. I would ask Senator Macnaughton to commence the questioning, please.

Senator Macnaughton: Honourable senators, I have just had some advice from the senator to my right (Senator Croll) not to be too tough, that Jack Davis is a friend. Of course, he is a friend of all of us.

I was about to say that it is a great privilege for us, indeed a wonderful thing, that people with Jack Davis's experience, integrity and knowledge will come back before a committee like this, because this is straight from the horse's mouth—if I may put it that way, rather crudely but effectively.

All of us hope that this period in the garden out west is only a time for Mr. Davis to recharge his batteries and to associate with the operative side of our industrial life in this country so that he will come back fully charged and will bring back to Ottawa his great personality, which many of us have watched with interest over the years, both in the other place and by close association. We hope he will come back because of the contribution he can make to any government and to the country itself. I should like to say more, but you know Jack as well as I do, and I think that is enough to indicate that we do appreciate his presence here.

He will understand, I am sure, that if I try to pick holes in his brief it is not for the purpose of being smart, or anything of that sort, but is for the purpose of getting more information and material from a person of his great experience and charm.

I should like to deal now with his own point, of liaison with our American friends being particularly true at the cabinet level. That is a wonderful statement, but how true is it, man to man? Surely it depends on the type of man we are talking about. Surely it is because you have a very distinguished university background; a wealth of practical experience in the other place; and that you have been "on the level" with the people of Canada, your voters from coast to coast; surely this makes you not just an average cabinet ministerial type but a person who could go to Washington and establish contact with Mr. Train, who is in somewhat the same category, in that his great interest in the environment is self evident to people who know the situation, and that you could immediately get on a buddy-buddy relationship or a frank relationship with him.

I should hesitate to apply the same remarks to some of the other members of our present cabinet and past cabinets. I feel that if they went down there they would be most abrasive in their dealings with our American friends. The same holds true of many of the American cabinet ministers. They are not at all easy to talk to. They are busy, important, sometimes opinionated.

So does it not depend, Mr. Davis, on the type of cabinet man who goes down there? Must you not say that it depends pretty much on his own personality, rather than just making a general, broad statement that all we have to

do is ship our ministers down once a week and they will fix everything up by the weekend?

Hon. Mr. Davis: Senator Macnaughton, it is true that it depends on individual personalities. It also depends very much on the nature of the meetings and the circumstances. I endeavoured to avoid the press, if possible, and to have meetings which were dealing with substantial subjects, but without laying on reporting to the press immediately afterwards.

Often we were unsure of the likely outcome of the meeting; we had high hopes at times, but we could not be certain that we would make our point or points or that we would get our own way. So many of our meetings began as exploratory meetings. The fact that we managed to get things done was, to some extent, incidental. We were not laying these on as public meetings or events forecast ahead of time in the press, where there was a contest and where there would be a winner and where there was a loser.

I think it is important that these meetings, or at least most of them, occurred *in camera* and unannounced, or with a minimum of fanfare. I think it is important that, unless something quite definitive has happened, we should also avoid having a press conference which is called ahead of time and which anticipates some major pronouncements.

Senator Macnaughton: We understand that you have a system by which you have, or should have, regular cabinet meetings with your opposite numbers of the executive, but that those meetings have not been taking place for some time.

Hon. Mr. Davis: Yes. Shortly after I became Minister of the Environment in 1971, I went to Washington to meet Mr. Train and Mr. Ruckelshaus. We agreed then that we would meet every six months. We met, on the average, twice a year.

Senator Macnaughton: What about the meetings of your brother cabinet ministers? Why have they not taken place?

Hon. Mr. Davis: I do not know. I cannot speak for them. It suited my convenience because we had so many issues in front of us in the area of the environment during the period of 1971, '72, '73 and '74. Mr. Train, in particular, was interested in the international aspects of the environmental movement. For example, he led the United States' delegation to the United Nations conference on the environment in Stockholm, as you will recall. He was the leader in the United States concern about whales.

He was the main environmental spokesman for the United States. He went to NATO. He went to the OEEC Meetings in a similar capacity. So he was interested in Canada-U.S. relations in this area, because he wanted us to support the U.S. position, of course, and because he was interested in developing the Great Lakes Water Quality Agreement, because that could be displayed round the world not only as a Canada-U.S. achievement but as an international precedent-setting event.

Senator Connolly: Do you remember what his precise title was?

Hon. Mr. Davis: He was the Chairman of the U.S. Council on Environmental Quality, and then, when Mr. Ruckelshaus became Attorney General, he took over as head of

the U.S. Environmental Protection Agency. Then he wore both hats.

Senator Connolly: He was not in the cabinet?

Hon. Mr. Davis: No, but he was the top man in environment in the United States, and he was the man who advised the President on environmental matters.

Senator Macnaughton: Special environmental adviser to the President—was that not the title?

Hon. Mr. Davis: Yes. He had several titles, including, during the latter stages, that of director of the U.S. Environmental Protection Agency.

Senator Macnaughton: Do you think it is possible, or feasible, for each cabinet member to establish a private liaison with his opposite number in the States?

Hon. Mr. Davis: No. It depends on two people, not just on one. One may welcome a liaison of this kind, and the other might be impossible to deal with; so it is a two-party affair. On the other hand, it may involve more than one on the Canadian side. In every instance I had to be confident of the support of other ministers, and this applied on the United States side also. That was more difficult, because there are not many cabinet meetings in the United States.

Senator Macnaughton: That is my point. Would you have Canadian cabinet ministers going off at a tangent insofar as their brother cabinet ministers are concerned?

Hon. Mr. Davis: It can happen, unless you meet frequently with your fellow cabinet ministers. You have to know that they agree, basically, with the main thrust of your proposals, the main points you are trying to make with your opposite number in the U.S.A.

Senator Macnaughton: My other point is, would this not be very upsetting to the local bureaucracy—your own department, for example? Then you have External Affairs, Industry, Natural Resources, and all the rest of it. Surely you bring these efforts together at cabinet level.

Hon. Mr. Davis: Yes. This is generally accomplished by preparing a paper for cabinet which bears the signature of the minister—let us say the Minister of the Environment—or, in some instances, the signature of several ministers. The paper goes to a cabinet committee. If it involves the spending of money, it has to pass Treasury Board, and also pass the main cabinet. Meanwhile, there has been an opportunity for every cabinet minister to have his say. There has been opportunity for officials in the other departments to be informed as to what is happening and to make an input as well. So we have a system under which we can clear all of these matters with other Ministers and other departments before a proposal is put to another country.

Senator Macnaughton: Dealing with the Great Lakes Water quality agreement, that was certainly a step forward in principle, but in fact, what has happened? Who is dragging their feet?

Hon. Mr. Davis: I would say that Canada has lived up pretty much to the letter of the agreement. The United States is lagging. If I were to say that everything contemplated in the agreement was to have been completed—I am talking about projects now—by 1976, then Canada, basically, would have met its target, and the United States would be several years behind; but one of the interpretations of the wording—and it is really a United States interpreta-

tion—is that everything should at least have been started by 1976 and concluded by 1977 or 1978.

Remember that they are spending roughly six times the money we are. It runs into many billions of dollars. Remember also that the agencies that are doing the spending often have financial difficulties. I am referring particularly to municipalities, which may have to raise their mill rates. It is difficult for the national government to insist that they spend several hundred million dollars by a given date. The cities are responsible for much of the budget on the United States side. They are going slower than we would like, but I think they are living up to the spirit of the agreement. They will have their projects completed by 1977, 1978.

Senator Macnaughton: Mr. Davis, I certainly want to congratulate you on the success you have had with your 200-mile limit. Are you not advocating 500 miles now? Or is Canada not?

Hon. Mr. Davis: No. What I advocated in 1968 was neither 200 miles nor some other specific figure, but the continental shelf and slope. Shortly after I became fisheries minister in 1968 I was asked to make a speech in Boston, which is the fishing capital of the United States. I had to make up my mind on several scores. One was whether there were all sorts of fish in the ocean, or whether they were limited in number. From what I had seen and heard it looked as if the resource was in trouble; that scarcity was imminent. If scarcity faced us, then management had to be the answer, and management of any resource must be carried out in the area—the whole area—occupied by the resource. Wherever the fish moved was the field which should be managed, and that is the continental shelf and slope. The geography of fishery management is the continental shelf and slope; it is not 12 miles or 200 miles.

Later it became obvious that we could have a world-wide consensus on 200 miles, and adopted that distance; but Canada should still press for the shelf and slope wherever they exceed 200 miles.

Senator Macnaughton: I would like to make one little congratulatory remark, namely with regard to what you have done for salmon on the east coast. What is your view on the freedom of the seas?

Hon. Mr. Davis: Well, I am essentially a free trader, and I believe in freedom of all kinds, particularly freedom of movement. I hate to think that any management regimes that we set up to protect fish stocks, or to exploit mineral resources under the sea, would limit the freedom of movement of vessels on the sea. I am all for a 200 mile limit for fisheries management, I am also for maximum freedom of movement of vessels, aircraft, and so on. They have to be clean, of course, so that they do not pollute en route, but I believe Canada's policy should be for extended limits for management of resources like fish, and minerals, and should at the same time see a minimum extension seaward of laws of individual nations as they apply to shipping.

Senator Macnaughton: Thank you, Mr. Chairman.

The Chairman: Senator Bélisle.

Senator Bélisle: Thank you, Mr. Chairman. Mr. Davis, while I was trying to assess the full meaning of the well earned and generous reference that Senator Macnaughton made to you, it dawned on me that he was aware that there is a vacant seat in British Columbia; so I hope that when

you come to us you can keep your independence in speaking, much as you are speaking to us now.

With humility, you said a while ago that you are an engineer and not a diplomat. Would you not wish that there were more engineer-diplomats who could construct as safely and prudently as engineers do, most of the time?

Hon. Mr. Davis: Yes, as long as the engineers were not too diplomatic. One of the main problems of communication has been—and will be increasingly in the future—the volume of paper that comes at you, the qualifications that are continually made, and the counter-arguments that are made to you with reference to a course of action. A course of action may be indicated, but you will also be given all the reasons why you should not do something. They say, again and again, “Be careful, be careful.” You tend to end up being careful, or completely confused, or both.

Senator Bélisle: As a supplementary to what Senator Macnaughton has asked, with regard to the pollution of the Great Lakes, would you not agree that one of the reasons the United States are dragging their feet is because of their economic problems, which are very numerous? Otherwise, would you not say that there was a certain good intent?

Hon. Mr. Davis: Yes. That is very true. I am convinced that had we not negotiated, finalized and signed the Great Lakes Water Quality Agreement in 1972 we would have had great difficulty in concluding the same or a similar agreement a year or two later. It would be impossible now. The energy crisis took over as front page news in 1974. Then unemployment. This together with shortage of money would make it very difficult today.

Senator Bélisle: While you were in office as our minister, it was well known that quite frequently you deferred to Mr. Sharp of the Department of External Affairs regarding a co-ordinated approach to Washington. Do you agree with Mr. Bryce, one of our former witnesses, that direct dealings are inevitable and desirable? And do you think that External Affairs needs to play a central co-ordinating role, rather than having a man-to-man approach?

Hon. Mr. Davis: I did not have any great problems with Mr. Mitchell Sharp. The fishing community naturally expects the Minister of Fisheries to be on its side. Fishermen want him to be an effective lobbyist in Ottawa, and if things don't move quickly they blame the Secretary of State for External Affairs. Mr. Sharp and I worked together for years before I entered into politics. We worked together in Trade and Commerce. We have worked together as M.P.s and Ministers. Mr. Sharp always supported me and I always supported him. I always made sure that his External Affairs people were present whenever any matters other than fisheries or the environment were involved in our meetings with our American counterparts.

What was your second question? Other than getting along with Mr. Sharp? What was your main question?

Senator Bélisle: It was that Mr. Sharp did not understand or take the time to understand your views?

Hon. Mr. Davis: We spent a great deal of time in Cabinet Committee meetings particularly on offshore limits, so there was a full understanding of those issues. But you had a question after that?

Senator Bélisle: Do you feel that your department was always kept adequately informed about the External Affairs views regarding your own problems?

Hon. Mr. Davis: I think we were reasonably well informed as to what External Affairs reservations were. Usually External Affairs was saying "Go slow" or "Have you considered this or that aspect of what you are proposing?" External Affairs complained at times that it was not fully informed as to what our intentions were, what we were pressing for. There is always room for some misunderstandings between departments—I am talking more at the official level than at the political or cabinet level. It is due primarily to the size of the departments, partly also because individual departments, other than External Affairs, take a narrower view on things. The particular projects or schemes that they push may not suit other departments and therefore have to be altered somewhat. External Affairs naturally has to co-ordinate. I think External Affairs must perform a co-ordinating role and that individual departments, no matter how well manned they are, no matter how energetic they are or how good their ideas are, must keep External Affairs as well informed as they can and must use External Affairs channels all the time—because to do otherwise is to invite the problems of being divided at home, at least appearing to be divided at home, if not in fact.

Senator Bélisle: I have two or three other questions but will wait until the second round.

Senator Carter: I would like to come back to Senator Macnaughton's point. I think one of his last questions was about the freedom of the seas. You indicated that while you press for maximum limits on shelf and slope for resource management, you want maximum freedom of the seas in other respects. Would that statement apply in cases of pollution and defence?

Hon. Mr. Davis: Pollution is a side effect. If your vessels are dirty, they constitute a hazard either to the fish life or to the shoreline, or both. When I say I am for freedom of the seas, I am for freedom of the seas for clean vessels but not for dirty ones. The coastal state should have certain powers to intercept, in respect to pollution, but again most of these powers would come to it as a result of international agreements as to what coastal states can do.

Senator Carter: You have a fairly clear image for fish resource management, that is slope and shelf, or alternatively 200 miles.

Hon. Mr. Davis: For fish management, oil and gas.

Senator Carter: Yes, fish, oil gas. That is clear. Would you have the same limits in the case of pollution? There must be some limits in the case of pollution.

Hon. Mr. Davis: Insofar as the living resources of the sea are concerned, the limits are the shelf and slope, but there are a lot of pollutants that do not affect fish life too much. They are of concern on shore. Oil is much more a shore line problem than a fisheries problem. There I would say that the distance would have to relate to the drift of the oil, how far out to sea must you police, in order to make sure there is not a substantial damage on shore if an accident occurs or if lack of care results in a serious spill.

Senator Carter: We have had to build in re-extending our influence 100 miles in the Arctic.

Hon. Mr. Davis: Yes, and within that 100-mile limit which is a sort of umbrella on the outside of all those islands right down to the Arctic Circle. Within those limits Canada reserves to itself the right to inspect any vessels

and make sure that it meets our standards. If it does it can sail along, it can come through our waters. But if we do not have world agreement, this practice could be generalized and used by other countries in other parts of the world.

Senator Carter: Obviously you have to face that problem because there must be some agreement on it, sometime, the same as has come with the fish resource management.

Hon. Mr. Davis: I would say as a broad generalization that when we have taken control over fishery resources out to 200 miles north of Labrador and the shelf and slope limits. We should police pollution at least as far as living things are concerned, right out to the same limit.

Senator Carter: Out the same as the fishery resource, fishery management limit?

Hon. Mr. Davis: Yes.

Senator Carter: What about defence?

Hon. Mr. Davis: Defence is something else. I have never ventured into that area to make any comments here about defence. I did say, on United States policy in the defence area, I mentioned that the Pentagon tended to be almost totally defence oriented, talking about the law of the sea, tended to be almost totally defence oriented until the last few years when the conservation arguments began to carry a lot more weight, especially in so far as fisheries protection is concerned.

Senator Carter: Coming back to the 100 miles of sovereignty that we would claim in the Arctic, there are some interesting press comments and stories about the possibility of the United States bringing gas or oil by submarine under the ice through our northwest passages, which would be within our sovereignty. Have you ever discussed any of those questions with your opposite number?

Hon. Mr. Davis: The Mackenzie Valley pipeline project, or variations of it, were discussed—not the Gas Arctic project, not of bringing gas from islands of the north southward. Environmental studies are now under way in Canada. To my knowledge, we did not specifically discuss projects involving pipelines across large stretches of ocean.

The Chairman: When you refer to the Mackenzie Valley pipeline, do you mean oil or gas?

Hon. Mr. Davis: Both. The corridor concept, the possibilities of bringing United States gas, gas from Alaska to the States, was discussed a number of times.

The Chairman: And also oil?

Hon. Mr. Davis: Yes, and those discussions proceeded in parallel with our discussions with the United States regarding western tanker movement. We were telling them repeatedly that we were very concerned about the environmental aspects of the west coast tanker movement, that is, Alaska Oil destined for the Puget Sound area, Seattle and so on, and California.

Senator Carter: That 100-mile limit that we complained about, did it happen to be much of an irritant between you?

Hon. Mr. Davis: The United States is still opposed to it, and a number of countries are opposed to the basic idea. Of course, most of these do not have any Arctic or Antarctic seas. They are not familiar with our particular problem in the extreme northern latitude, with very low temperatures

and so on; they are concerned merely with the idea of a 100 mile limit. The shipping nations of the world are very concerned about the freedom of shipping through international straits, such as the Straits of Malacca, and so forth, and even the English Channel. Therefore, anything that Canada did in relation to the northern area, which involves straits—that is, the straits between the Arctic Islands—carried with it implications for straits in more temperate climates around the world. They did not like that, and still don't.

The Chairman: On a point of clarification, Senator Carter, in your question relating to submarine tankers under our ice you used the phrase "impinging on our sovereignty." I am wondering whether Mr. Davis can perhaps clarify that. It is my understanding of our position that we claim the ability to regulate in that respect without actually claiming sovereignty over it.

Senator Carter: I understood that our sovereignty extends right to the Pole.

The Chairman: But not when you go more than three miles offshore.

Senator Grosart: Twelve miles.

The Chairman: There is a difference between claiming the right to control something, such as fishing, and sovereignty. In other words, regulating as opposed to owning.

Senator Grosart: Jurisdiction versus sovereignty.

The Chairman: Yes.

Hon. Mr. Davis: Thinking of the situation off our East Coast, where we do not have ice continuously as we do in the North, we presently have sovereignty, or certainly legislation that establishes our complete sovereignty out 12 miles from our coast.

The Chairman: It used to be three miles; it is now 12.

Hon. Mr. Davis: We not only own the land above sea level, but we have total control, our laws obtain, in every sphere out 12 miles.

When it came to fisheries, we drew straight base lines from headland to headland and added 12 miles. Two of the lines close off the whole of the Gulf of St. Lawrence, one across the Strait of Belisle and one from Newfoundland to Nova Scotia.

From a fisheries point of view, that is a Canadian lake. From an oil and gas point of view, that large area of shelf is Canadian and is in the eyes of the world because of a U.N. conference in the late 1950s. But you will have noticed in the press recently in connection with the ship the Answer that the moment it was more than 12 miles from land, even though it was in the Gulf of St. Lawrence, it was not in waters over which Canada had total jurisdiction. We have not proclaimed jurisdiction beyond the 12-mile limit for all purposes.

The Chairman: That is Senator Grosart's point, and mine.

Hon. Mr. Davis: Moving to the Arctic, we have a 100-mile limit, but it is only in respect of the navigation of vessels. But that is something we have not proclaimed, for instance, in the Gulf of St. Lawrence. Under Canadian law at this moment, we could not intercept a vessel which was 12½ miles from the Gaspé.

Senator Grosart: Or the West Coast.

Hon. Mr. Davis: That is right.

The Chairman: Senator Cameron.

Senator Cameron: Mr. Chairman, one of the increasing risks that we take today is the risk of oil spills, and we have had numerous illustrations of that. I am wondering whether Mr. Davis has any information about any steps that are being taken by countries—not necessarily just Canada, but other countries also—to tighten up the laws of the sea with respect to the damage to the environment as a result of oil spills or other shipping disasters. If nothing is being done, should we not be doing something in that respect?

Hon. Mr. Davis: Some steps have been taken. Several countries, Canada being one of them, have done a great deal to try and get more done that would protect the shoreline, protect the territory of the coastal state. The shipping nations of the world, of course, are restive about this type of thing. They want freedom of movement; they want to minimize their investment in vessels, especially old vessels, which would have to be either scrapped or rehabilitated in a very expensive way.

I attended the last few meetings of the International Maritime Commission, IMCO, in London, in place of the Minister of Transport, and matters such as double holes for tankers were raised. They were, of course, opposed by the great majority of shipping nations. IMCO is a less than satisfactory forum for Canadian environmentalists, because it does not include all nations; it includes only the shipping nations, and Canada is not a major shipping nation. It is more of a spectator or a customer of the shipping nations as opposed to being a big ship-owning and ship-operating country.

However, both the United States and Canada were substantially together in respect of measures which we hoped would progressively become part of the rules of IMCO, which would then be applied by the shipping nations to all of their membership. Also, there is a linkage through to the United Nations. Whatever is cleared by IMCO as to rules and regulations for its membership, is almost automatically part of the United Nations rules of behaviour.

We have pushed for many things as, for example, the ability of a country such as Canada, a third country, to apprehend a vessel which may have escaped from one of our ports, or may have come near our shores but not into our waterways, thereby causing a problem. We wanted to make it mandatory that third countries could immediately start proceedings against such a vessel, its owners or the owners of its cargo, or both. This kind of thing is still very much in front of IMCO, but certainly has not been resolved to our satisfaction.

Senator Cameron: What about the situation where so many ships are sailing the seas now under the Panamanian flag? What jurisdiction would we have over such ships? Do the laws of the sea apply to them in the same way as they apply to others, or why do they fly the Panamanian flag so very much?

Hon. Mr. Davis: Well, the laws of the sea would apply if there were laws. The Law of the Sea Conference is operating in a sort of no-man's-land where there have been no laws and no regulations in the past and where we are having the greatest difficulty establishing laws which would apply universally.

If the shipping nations can agree, obviously the United Nations would have no difficulty in enforcing what the shipping countries want.

One of the real problems facing the upcoming Law of the Sea Conference, the Geneva Second Stage, which is scheduled to begin later this month, is precisely that in respect of shipping we do not have much progress to report.

The Chairman: Thank you, Senator Cameron.

Senator Grosart: Mr. Davis, as we are dealing here with Canada-U.S. relations, would you be good enough to outline for us the areas of agreement and disagreement between the two countries in respect of territorial and extraterritorial waters, particularly in respect of the 12-mile sovereignty limit, the so-called 100-mile limit, the 200-mile limit, in view of the background that our declaration of the 12-mile limit was unilateral after we twice lost out in Law of the Sea Conferences? In other words, we said we do not care what the rest of the world thinks, we are going to impose it ourselves.

It wouldn't surprise me if that was the time Mr. Pearson was the Nobel Prize Winner. There were reasons for that, which we understand. Again, it was the Americans who took the initiative on the 200-mile jurisdictional plan, and so on. What are the areas of agreement now? Also with respect to long-established fishing and other treaties, what are the areas in which we have come together, in which we have agreement, and the areas in which we still are in disagreement?

Hon. Mr. Davis: Broadly I would say we agree on the ownership of minerals off shore, more particularly oil and gas.

Senator Grosart: How far off shore?

Hon. Mr. Davis: It is rather indefinite, but it tends to be a continental shelf limit. I will come back to that.

Senator Grosart: Shelf, or shelf and slope?

Hon. Mr. Davis: It is as far as oil and gas can be economically recovered, whatever distance that is. I would say broadly speaking in the oil and gas search area we are agreed. I say broadly speaking. There are specific areas of possible difference. We are in agreement now substantially on coastal states' rights re fisheries. At least the 200-mile concept has been endorsed by the United States now, and in the United Nations.

When it comes to the movement of ships, shipping and pollution from ships, Canada would like to see the coastal state have policing powers further seaward than the United States would. This is an area of difference that could be explained in this way. Canada is not a country operating many ships around the world. The United States is. The United States also sees control over ships, checking them up for pollution, standards of construction, impinging on defence, impinging on naval vessels, impinging on their freedom of the seas from a military point of view. Canada is less concerned with, or at least Canadian policy is less focussed on, that concern than the United States. If I had to stress differences I think that is the area of greatest difference. Canada is a non-ship-owning nation, Canada is not a big world power concerned with national defence as perhaps the item of highest priority.

When it comes to territory, Canada and the United States are together on the 12-mile limit. We both have a 12-mile limit. We declared our 12-mile limit unilaterally,

first for fishing in 1964; that is, 12 miles without naming any strait baseline. Then we declared it for all purposes as 12 miles. We had three miles up until 1971; it is quite recent. The United States followed us, first on the 12 miles for fishing, a couple of years after we brought it in, and latterly they followed us much more closely on 12 miles for territory, so we are together on the extension of territory.

We are a distance apart in the Arctic. Their concern is not so much protection of the Arctic shores of life in the seas from pollution, but rather for the fall-out in terms of implications for straits elsewhere in the world. They look on the Arctic more as a series of straits for shipping to traverse rather than ice-covered waters where protection of the environment is paramount. We, of course, see it as a sovereignty issue up there as well. They see it much more as a precedent-setting move on our part to close off those straits, which if allowed in more temperate climates where there is no ice and so on would present them with all sorts of transport and defence difficulties.

Senator Grosart: Would not the long established concept of innocent passage solve this problem?

Hon. Mr. Davis: How innocent is innocent? I am thinking of pollution now. If you were sailing a leaky old World War II tanker into a body of water you should have the right of passage, in my view, but you should not have the right to pollute. Someone has to say whether that vessel constitutes a hazard from a pollution point of view or not.

Senator Grosart: Is that not pretty well established judicially in the *Torrey Canyon* case, what was innocent passage?

Hon. Mr. Davis: I do not know. I am not a lawyer so I really could not elaborate on that.

Senator Grosart: What is the narrowest strait in the Northwest Passage? In other words, is it over 24 miles?

Hon. Mr. Davis: No. There is one which the *Manhattan* went through, which was less than 24 miles. It could have followed a different route, but that is conceded to be the best route. Merely proclaiming 12 miles as the territorial limit did constitute one kind of block for that traffic.

Senator Grosart: You made a very strong point, with which I might say I agree entirely, that there is a special relationship, and you describe it as at all levels, political, social and economic. The press reported the present Secretary of State for External Affairs as saying in a speech the other day in, I think, Winnipeg, that the day of the special relationship is over. How do you reconcile these two viewpoints, or is it just semantics?

Hon. Mr. Davis: I did not read Mr. MacEachen's speech; I did not read the actual text. My impression is that he was saying that the era, if there ever was one, of easy-going relationships is over, and we have other problems, some of them more difficult than in the past. I would agree with him if that is what he was saying on the other hand, in the manner I outlined in my opening statement, I believe we have a special relationship. We may be entering into yet another era where the relationship is different from what it has been in the past, but I think it is a special relationship, regardless of the problems.

Senator Grosart: I think this is probably becoming a "can't" phrase, because I can remember, as will the chairman, when we were going to Europe to meet with officials and others of the European Community, we were told by

our own officials here in no uncertain terms that there can be no special relationship with Europe. When we got there, no less a personage than Sir Christopher Soames told us, only two or three years ago, that there can be no special relationship. Now the relationship is so special that we have exchanged ambassadors, and you cannot get much more special than that. I think this is probably just an overworked "can't" phrase. I hope it is anyway. You made a very interesting point in your presentation about what appeared to be oral policy commitments with your opposite numbers.

Hon. Mr. Davis: They were not always commitments. I felt free to discuss almost anything, without necessarily entering into commitments; but we did make commitments, yes.

Senator Grosart: But you said you would say this is Canada's view on this particular thing. If this was merely oral, will this not cause tremendous difficulties later on when we have discussions as to who said what?

Hon. Mr. Davis: Yes, it could. I think that is one of the risks you run. On the other hand, if you clam up, if you do not say anything on an issue the other country raises because you feel it might cause difficulties a few years down the road, I think you lose the value of instant communication. I think it is useful for the other country to get some reading of at least what the opinion of the minister involved is. He could be wrong and he could be misreading the situation. Nevertheless, I think it helps to be frank and say, "That is my opinion, but I think this is the way it is going to go," or "I think this is a position I can sell back home." In other words, I would be much more inclined to say something rather than nothing.

Senator Grosart: Would you put it on the record as a Cabinet memo or otherwise that you had said to your opposite number in the United States, "This, as far as I am concerned, speaking as a minister, is the Canadian position"?

Hon. Mr. Davis: Yes.

Senator Grosart: Would this be put on record?

Hon. Mr. Davis: Right. I would say this in respect to, for example, pollution standards for industry. I had some background on the trade side. I also knew that we would have great difficulty in raising hundreds of millions of dollars to pay companies to clean up. I therefore expressed a judgment which I felt would be substantiated in cabinet and which was good trade policy, let alone good environmental policy, namely, that we were not going to give industry any money to clean up but would require industry to clean up by stating and by detailing standards. And we told the Americans this at a time when they had not made up their minds fully as to what their standards would be relative to industry.

Senator Grosart: And yet Parliament has appeared to have voted very large sums for what is, in effect, cleanup of industrial waste, because how far can you trace it? For example, if we are going after the mercury problem in an attempt to clean up mercury, we may not even know what industry actually created the problem.

Hon. Mr. Davis: We knew what industry created it. We required the companies to clean up at their own expense. I am talking now about mercury as an example. It was substantially the chloralkali industry. It was an industry

which bought great quantities of mercury and which lost great quantities of mercury. We were not sure how the mercury left the plant, but it left—whether it went up in the air or out in the water.

We called that industry in and developed standards in concert with that industry. We proclaimed those standards and said that they would be prosecuted under the Fisheries Act unless they had a certain kind of plant in place by a certain date. Those were our standards. There was no public investment other than in the enquiries, the research phase. Industry paid to clean up.

This has been true, industry by industry. We paid for research in areas where we did not have answers, but we did not pay companies directly to clean up.

Senator Grosart: Would you say that this interesting technique of yours—what we could call for the sake of a better word, "minister-to-minister discussions", whether they be private, semi-private or otherwise—could be extended in the Canadian-U.S. context in view of the great difference in size between the two cabinets? It has been suggested that the people with whom you were dealing as a cabinet minister were not United States cabinet ministers. In other words, how do you find the opposite numbers?

Hon. Mr. Davis: How do you mean, how do I find them? Their competence, I think, reflected their access to the president. Some had ready access and others did not. Mr. Train did.

Senator Grosart: But this would seem like a unilateral basis on which you decided to open high-level policy discussions with A or B. Would you have the approval of the president or the approval of the executive or would your opposite number have that approval?

Hon. Mr. Davis: Well, in the first instance, everything was arranged through external affairs and the state department. The selection of ministers or responsible opposite numbers was made through what I would call customary channels. But I dwelt much more on how we developed this liaison once the negotiations on both sides had taken place.

When a new subject was being broached, a new area of concern was to be discussed, I, of course, took the matter to cabinet in a formal way so that I was not raising matters of major importance off the cuff or as a result of my own initiative. I was doing so with the full knowledge of my cabinet colleagues and with the full knowledge, of course, of external affairs.

Senator Grosart: What about the State Department? You did say it was arranged between the two, but from this side of the line one gets the impression that high-level decision makers come and go rather more mysteriously than they do in Canada.

Hon. Mr. Davis: As it happened in my case, Mr. Train was the responsible U.S. nominee throughout my period as environment minister, and Mr. McKernan was the responsible fisheries man. I know in the case of other ministers the opposite numbers changed a great deal, but I did not face that particular problem.

Senator Grosart: But you would say that there would be a protocol exchange before a Canadian cabinet minister would select a certain person with whom he would engage in high-level policy decision negotiations.

Hon. Mr. Davis: Yes. Not only would the selection of the person be cleared, but each time I went to United States or the U.S. minister member came here we cleared things. Usually it was at the cabinet level and it was always through external affairs.

Senator Grosart: This would not apply at lower levels in your officialdom?

Hon. Mr. Davis: That is right. We had a number of people going backward and forward depending on whether they were concerned with cost matters or biological matters or about technical, economic matters.

With respect to diplomatic matters we can call diplomacy a different art. We are always covered by external affairs, but when it came to the height of a dam or the number of skins on a tanker or something like that, it was a technical person. They went to a different department than external affairs.

Senator Grosart: Because we are engaged in looking at the structure of Canadian-U.S. relations, would you say that at any given time there might be scores, perhaps hundreds, of Canadian departmental officials in the United States dealing with their opposite numbers without direct reference, relating to that visit, to, say, the Canadian embassy? Would that be the kind of situation?

Hon. Mr. Davis: I would say that on occasion there could be scores, but not hundreds.

Senator Grosart: I mean, taking all the departments.

Hon. Mr. Davis: Oh, yes, there would be scores, but they would be dealing in areas which I would call largely technical and not policy.

Senator Grosart: Yes.

Hon. Mr. Davis: To give you a specific example, Professor Cohen appeared here. I think he said in his testimony that he had a very small staff. He has a very small staff. His technical staff was, in fact, comprised of our people from the Department of the Environment. They were the people who worked up, in technical detail, anyway, the Great Lakes Quality Agreement. They comprised also the staff of the IJC and the staff of the Department of the Environment and the advisors to External Affairs on technical aspects of that agreement. They are still working with their U.S. opposite numbers today on monitoring an agreement which was signed some years ago.

Senator Grosart: You used the word "export" in relation to pollution between the two countries. Would you care to give us an indication, to put it in its crudest terms, as to who was the worst offender, who is polluting the other country more, and in what aspects?

Hon. Mr. Davis: I think it is fairly clear that the United States is polluting Canada more, simply because they have a larger population and more industry. If you think of the St. Lawrence River system as the principal locale of population on this continent, they have six times to eight times our population and six times to eight times our industry in the whole basin. They are upstream of us, often, and they are certainly upstream when it comes to air. The air is blowing across Detroit before it hits Windsor. We are often the downstream recipient of pollution and wastes. These are among the arguments we used to try to get them to spend six times as much as we are spending on the clean up of the Great Lakes.

Senator Grosart: Thank you.

Senator Connolly: I take it from what Mr. Davis has said, Mr. Chairman, that he is quite optimistic about the favourable development of our relationships with the United States in the public sector insofar as officialdom and ministerial levels of contact are concerned; and I think, generally, we thoroughly agree with that assessment. I wonder, however, whether Mr. Davis would care to talk about our international relations, and Canada's relations with the United States, within the private sector, and what the future holds there. I know this is a very big kind of subject, but it seems to me that the private sector, and the relationships across the border, are terribly important, certainly to Canada, but important also to the United States, in view of the fact that we are both each other's biggest customer. From an economic point of view it seems to me these relationships must be healthy at all times, because there is a great deal of good that can be derived from them for Canada.

Hon. Mr. Davis: Well, I agree that here again we have a special relationship, if only one of proximity.

One of the reasons I am fundamentally a free trader, or aim certainly for free trade between Canada and the United States, is that government intervention tends to be very substantial when it occurs; and changes, when they are ultimately made through these government edicts or interventions, result in very substantial changes in the ground rules for industry, companies and individuals on both sides of the line. They give rise to an opportunity, first of all, for misunderstandings, and secondly, they set up expectations on one side of the line and the other for something that cannot really be carried off indefinitely. Hard feelings therefore inevitably ensue from that.

Senator Connolly: Confidence is undermined.

Hon. Mr. Davis: Yes. If some protectionist device is suddenly instituted by a government on either side of the line, it really upsets a lot of people on the other side, often for no good long-range reason.

Senator Connolly: You are talking, really, about the importance of a proper climate being established in the public sector which will assist the best kind of relationships across the international border in the broad sense.

Hon. Mr. Davis: Yes. If I could give you an example—you know many, of course—I would like to pick the area of fishing because I know more about it. In my period as fisheries minister, we endeavoured to set up a reciprocal fishing agreement with the United States. We have one of sorts. We tried to achieve, in other words, reciprocity in fishing. If we had agreed to the free movement of fishermen and fish products, both ways, we would have a much happier situation than presently exists.

On the west coast, now, we are endeavouring to establish a working relationship with the United States, since they are always nervous with this reciprocity arrangement, which involves all parties—the fishermen's union, the vessel owners, the native brotherhood, the co-operatives, the companies, and so on. They can have special interest, and they disagree, even on our side of the line, with the objectives of the other parties. This applies on both sides of the line, not just ours.

The negotiations then occur in an atmosphere where all the vested interests are present, at least as advisers and observers, and no one really knows what the outcome will

be from year to year, because this reciprocal agreement is renewed, currently, on a 12-month basis. Were we able to establish basic ground rules which would apply for all time we would not have this continuous uncertainty on the west coast of Canada and the United States, and a much better division of labour, certainly, because we can outfish them. This is one of the reasons they are not all that enthusiastic over a reciprocal fishing agreement.

Senator Connolly: We are outfishing them, are we not?

Hon. Mr. Davis: We are better fishermen, and out there we have a better setup. We have narrowed our fleet down to the best vessels and the best operators, whereas they have an unlimited entry fishery system, resulting in poor boats and often poorly equipped fishermen. Our fleet is better than their fleet.

The Chairman: Honourable senators, before starting on a second round I have two or three questions, and I wondered if you would indulge me.

Senator Connolly: You are a member of the committee. You can ask them.

The Chairman: I would like to pursue them with our witness. The first one, Mr. Davis, in one which you touched on in your remarks, under "pipelines". You made it quite clear to the Americans that the information coming in from your preliminary environmental studies on the Mackenzie Valley pipeline was that it was environmentally sound, and would be supported, and was certainly preferable to the transport of Alaska oil by tanker to the continental United States. Are you convinced that that message got clearly through to the American government when they came to make their decision to go by tanker instead of negotiating with Canada for the Mackenzie Valley oil pipeline? I am not referring to gas at the moment.

Hon. Mr. Davis: The message got through clearly to the environmental side in the United States administration. It was not something we said once; we said it a number of times, and we have said it repeatedly as we have got better information over the last several years. I do not think the environmental concern, broadly speaking, really weighed very heavily in their decision to go, at least in the first stage, for a trans-Alaska pipeline and tanker movement down the west coast. Environmental concerns were secondary, and I am convinced that their basic decision to press on was related to the increasing dependence of the United States on foreign oil. They were going to get United States oil—Alaska oil—into the United States, especially on the west coast, where they were becoming more and more dependent on the Middle East. Alaskan oil into California was the idea, rather than oil from the Middle East. It was an energy decision, and also a decision concerning security of supply. I think that weighing heavily in their minds was a route that brought their oil to their 48 states via United States transport, through United States territory and through international waters.

The Chairman: Fully secure in their own hands.

Hon. Mr. Davis: It was energy supply and security which dominated the discussions.

The Chairman: Another question that I have is: There has been a good deal of discussion this afternoon on your one-to-one relationships with your counterparts in the United States. We have had other witnesses suggesting that the joint ministerial meetings between the two coun-

tries, which appear to have been discontinued now for six or seven years,—or some years, at all events—would be beneficial, particularly, possibly, from the Canadian point of view, in that they would cause a number of American ministers, in preparation for the meetings, to focus their minds on us, their neighbour to the north, at least one a year, or certainly more frequently than they might otherwise do. I wonder if you have any thoughts on resurrecting those joint ministerial meetings and having them on a regular basis?

Hon. Mr. Davis: I think it would be a good idea as long as they were not held too often. I held several meetings with Japan of a joint ministerial nature. They require a lot of time for their preparation; also, the time that you get to deal with your particular topic or concern—I am talking about a specific minister now—is limited. You always have to bear in mind that there are half a dozen other ministers from your side who are not particularly interested in your field, and similarly on the other side of the table. So the issue gets a relatively brief airing, and often you do not conclude anything unless the conclusion has been teed up ahead of time, so to speak. You really do not negotiate much. You expose a point of view, perhaps, or you may be able to agree on something that is virtually agreed ahead of time.

Senator Connolly: Would you say it might be a vehicle to tee up a minister-to-minister meeting which could be more efficient? Is it worthwhile having a group meeting for the purpose of teeing the minister-to-minister meeting up?

Hon. Mr. Davis: Oh, I think definitely that would certainly help.

The Chairman: Once a year, or something of that sort?

Hon. Mr. Davis: Yes. It would provide something of a setting, help establish priorities, or indicate the urgency of an issue which a particular minister might have difficulty convincing his colleagues of in his own country; but it would come out much more in a meeting of half a dozen ministers from one country and half a dozen from another.

The Chairman: Before I give up the floor I have one third question and then I will go back to the members of the committee. The unsettled boundaries extending from our shores on both the east and the west have a bearing on the fishing, I am sure, and also on oil and gas when they are discovered. What is your view as to the present situation where nothing is going forward in settling those lines? Should they be settled before the problems develop further, or is it better to wait and let events develop before we settle them?

Hon. Mr. Davis: I think the line should be settled as soon as possible. Mind you, there are claims made by the United States in one area which I think we should resist as much or for as long as we possibly can. I am referring to the line from Prince Rupert due west. There is an argument there as to whether the line is the boundary as presently shown on Canadian maps from the Canadian mainland touching the tip of the Alaskan Panhandle, extending on out, which is as we would wish, or a mid-channel point which the Americans would prefer and which would then see the lines sloping southward into the Pacific and give them a pie-shaped slice of the shelf and apparently going seaward. That one is difficult, but as you say we do not have a boundary extending from the land seaward on the east

coast between New Brunswick and Maine. We do not have one extending from the Strait of Juan de Fuca which is a strait between Washington State and Victoria. We do not have a line there. We do not have a line off Prince Rupert. We do not have a line extending northward into the Beaufort Sea, dividing the sea north of Alaska from the sea north of the Yukon. It is very important that we establish some of those lines immediately. The one in the Beaufort Sea determines whose oil and gas it is out in the shelf, which may be prolific as far as the minerals are concerned. It is very important that we establish a line extending from the Strait of Juan de Fuca out into the Pacific from southern British Columbia and Washington State into the ocean, because we cannot really finalize the pollution control agreement until we have a line. We need a line because we want to be able to say Canada is in charge of the combined operations north of the line and the United States is in charge south of the line. We can develop an informal liaison but we would like to bring forth an agreement which has been worked out in all its details except for the geography of the line there.

Senator Grosart: When you extend these lines—and I am thinking particularly of the Juan de Fuca line—how far would you have to extend it? If you go out 12 miles and you meet the 12-mile sovereignty line, would you extend it then out for 200 miles?

Hon. Mr. Davis: Project it farther until it is half way to the next land mass, half way across the Pacific.

Senator Grosart: You wouldn't extend it beyond the 12-mile jurisdictional limit, in other words take over the whole of the high seas, surely?

Hon. Mr. Davis: You dot it on out, if I might put it that way. Weather ships—who has a responsibility to detect weather? Above that line, that dotted line, if I may put it that way, Canada would say that is Canada's and below it belongs to the United States. There are various things you do well out, and while they do not mean full sovereignty there is some aspect that defines an interest of the nation.

In the late 1950s, in 1958, the United Nations convened a Law of the Sea Conference and at that Conference the one substantive thing that was done was to determine that the minerals belonged to the coastal state. Now, there is a reference to 200 metres and so on in it, as a limit to which the country goes but it is not clear as to whether it is 200 metres depth or going as far as technology will allow its exploitation. It is a very fuzzy limit and we do not know how far in the future we may want to exert some measure of influence.

Senator Grosart: But surely this is ignoring the interests of developing nations in the high seas! Even the landlocked states are insisting today in international conferences, that they have a stake, that they have a right there. If we are going to carve up all the high seas between the existing nations that have the muscle, surely this is a regressive concept in terms of world peace and world harmony? Switzerland makes a claim to rights in the high seas and to the resources of the high seas.

Hon. Mr. Davis: One of the matters that is before the present Law of the Sea Conference is a further definition or redefinition of the extent of mineral rights. While there are those who will claim the whole issue was settled in the 1958 Law of the Sea Conference, there are many other nations, as you say, that are questioning that. The present landlocked states, like Switzerland and Austria and others

around the world, which have no seacoast at all, and some with a very small shelf, want in on this world wealth that is under the big shelves of a few countries. We with, if not the biggest, the second biggest shelf in the world, want the full shelf to be ours, but there are other countries who want a very narrow limit to be declared around the land masses of the earth, and the rest to belong to the people of the world and administered under the United Nations.

Senator Grosart: That is my point. If we are going to extend this boundary line indefinitely until it meets, in our case, the Japanese boundary line, then you are in effect saying that between us we own the high seas, or we have special rights that nobody else has?

Hon. Mr. Davis: Will you extent it out by your maps and then back it up by world agreements.

The Chairman: Coming back to my question about boundary lines, once the direction of them is set, what is going to stop the 200-miles from going on in a straight line?

Hon. Mr. Davis: At the present time there is no agreement on the 200 miles even. It is a dotted line. We just dot it on out and then work through the various bodies like the United Nations to establish regimes for fishing, oil and gas, shipping and so on, each of which has a different grammar, each of which has a different distance. I mentioned the weather ships—I was groping for a case. The United States will say that above a certain line you look after the weather and below it we will look after the weather.

Senator Lafond: To come back to our eastern ocean and being closer to actual Canada-United States relations, there was a news item this morning to the effect that the long-standing controversy or question had been settled but not resolved by some board in Maine, permitting the construction of a huge refinery but stipulating that how that refinery could bring its crude into its operating plant would have to be cleared with respect to Canada, before permission was granted. I would like Mr. Davis' opinion as to whether this was a victory or otherwise for Canada. I would also like to draw his attention to the fact that a witness before this committee suggested that the intervention of Canada in this question had been a bit premature. I would like Mr. Davis' opinion as to whether it was or not. If he says it was not, I would like him to give some reasons why he would say that.

Hon. Mr. Davis: I think that the ruling of the United States State of Maine Commission, as reported yesterday, is something of a victory for Canada and for Canadians, if only because it eliminate or probably eliminates the likelihood of large tankers going through Canadian waters, very difficult, dangerous Canadian waters, to a refinery which is immediately south of the New Brunswick-Maine boundary. That constitutes a very serious hazard to the environment, to recreation, to waterfront homes and, more particularly, to the lobster-holding ponds which are all along that area. Also, tanker movement through that passage could have done nothing but hurt us and, I would argue, be of very doubtful value to the United States. I was always a strong believer in moving quickly, and the moment I heard of the possibility of a refinery being built just over the line on the U.S. side—

Senator Macnaughton: At Eastport, Maine, two miles from Campobello Island.

Hon. Mr. Davis: Yes—my first thought was to prevent it from happening by making sure that the wheels did not

turn too far for us to turn them back. I, of course, as fisheries minister responsible for the East Coast as well as the West Coast, was doubly conscious of this problem, having seen a refinery built 12 miles south of the international border which could do nothing but export most of its pollution to British Columbia. My view was that if we were saying one thing for the West Coast, namely, don't build refineries under our nose, we had to be saying the same thing, under even worse conditions, with respect to our East Coast.

We did not say to the Americans without any thought that this was a bad thing. I took it through cabinet so that all of the members of the federal cabinet were aware of the problem and supported my position, and External Affairs transmitted the message to Washington. We did this with the full backing of New Brunswick, at least as far as I was aware. The then Minister of Fisheries and Environment for the Province of New Brunswick, Bill Cockburn, was always pressing that we do this. As time went by, he and others in the then New Brunswick administration were critical of our lack of intervention, as they saw it. They could not understand why I, personally, as Minister of the Environment for Canada, could not show up at the hearing in the State of Maine and state that Canada was unalterably opposed to such tanker movement.

I do not understand why Premier Hatfield charged that his government was not informed. His government was very much a party to our deliberations, at least a department of his government was. We did move early, but Canada's position was clear from the beginning, and has been clarified over time. We have been opposed throughout, and we made that clear officially through External Affairs to the State Department in Washington, D.C., back to the State of Maine and right into the hearing at which we read a formal statement as to Canada's position.

Senator Lafond: So, the intervention was through normal channels—through External Affairs to the State Department—as opposed to minister-to-minister intervention?

Hon. Mr. Davis: It was also minister-to-minister, because we raised it early. In fact, we got it in a general way from the Honourable Mr. Train saying to me, "Look, you people are very much ethical; you want to be very clean on your West Coast, but on the East Coast of Canada you are building refineries all over the place near our border. Do you have two policies, one for the West Coast and one for the East Coast?" and I always said that we had just the one policy, that being that where the navigation is difficult, where there are dangerous passages, where a tanker is likely to get into difficulty, we are against them, regardless of whether it is the East Coast or the West Coast. From the moment the application was filed to build the Eastport refinery we knew we had a problem. There was no alternative; we had to be consistent on both coasts. Premier Hatfield was not, as far as I was concerned, directly involved, but I always made it a point to tell his minister what we were doing and, in so doing, I got all sorts of encouragement.

The Chairman: Senator Macnaughton.

Senator Macnaughton: Mr. Chairman, as a past chairman of the Roosevelt Campobello International Park, which is the only international park we have—

Hon. Mr. Davis: We should have one at Point Robert.

Senator Macnaughton: —I would be concerned, since it is only two or three miles away from Eastport, what a refinery at Eastport would do to it. That park was set up with a great deal of kudos between our two countries.

However, while you are here, Mr. Davis, I want to ask you—it has been more or less referred to or dealt with—how Canadians can resist or control, or make arrangements with regard to U.S. oil shipments from Alaska down the West Coast, and what is the present status of the Juan de Fuca Straits vis-à-vis the refinery there.

Hon. Mr. Davis: The present status of refinery construction, essentially, is that several refineries were built just over the boundary in the United States to receive oil from Alberta. In a sense, there is a refinery complex just south of the Canada-U.S. border, just south of British Columbia. Atlantic-Richfield, which was a newcomer, built yet another refinery, a very big one close to the border—even closer to the border than earlier refineries—to initially receive oil from Alberta, but long term to receive oil from Alaska where it has major holdings of pools of oil on the north slope of Alaska. That refinery is in existence; its dock is in existence. It has received offshore oil from tankers from the Middle East in fairly large quantities. But it was basically to treat Alaskan oil. As far as I know, the plans are to receive Alaskan oil at that particular refinery.

The policy of the State of Washington has changed. At first, it just ignored the problem. It allowed the Atlantic-Richfield refinery to be built. Now, the policy appears to be an insistence that any future refinery construction and/or expansion occur at or west of Port Angeles on the U.S. side, which is roughly opposite Victoria. So it looks as though future refineries will be outside of the Gulf Islands, essentially outside of the Puget Sound, Strait of Georgia inland sea, but just off the mouth of it. Much of the Alaskan oil is destined for California. About a quarter of it might be dropped off in the area I just mentioned.

But we have a long term threat, that being that if the U.S. never goes for a line or lines across Canada, conceivably there will be more lines built across Alaska and more tankers moving down the West Coast, and an express line or lines built from the West Coast to Chicago. This is what we must guard against. This is another reason, really, for cooperating with the U.S. on a trans-Canada corridor.

Your first question is what can Canada do about this? Well, it is more a matter of liaison with the Americans and the stressing of values other than straight energy or oil dollar values than anything else.

As I mentioned in my introductory remarks, both Mr. Sharp and I met with the Secretary of State and others and argued that the environmental values, the recreational values, the land property values, and so forth, in that inland sea area were so great that it would be ridiculous to run the risk of tankers breaking up on the rocks in the Gulf Islands and that in their own interests they should not allow this. Good planning, good zoning in the U.S. Pacific Northwest would preclude a refinery ever being built in that area. We did not make much headway initially, but this view has begun to take hold in Washington State.

Senator Macnaughton: Did we not offer to supply them by pipeline if they would stop the tankers?

Hon. Mr. Davis: Well, certainly we offered to explore the corridor concept bringing oil across Canada as an alternative to the West Coast movement. But my overall impres-

sion was that their first stage had to be, if I can call it such, an all-U.S. route, which meant tankers.

Senator Grosart: A supplementary on the same point, Mr. Chairman. How far off Vancouver Island would the normal route of these tankers be?

Hon. Mr. Davis: If the tanker was destined for California—

Senator Grosart: Assuming it is destined for Cherry Point.

Hon. Mr. Davis: If it were destined, first, for California and followed the great circle route, it would be more than 200 miles out, and that is three barrels out of every four. If it were destined for the State of Washington and was going to Cherry Point, it would be 12 plus miles away from Victoria. The boundary between Vancouver Island and the Olympic Peninsula in the United States is the midway point, and the midway point, often, is less than 12 miles. They would be, say, 13 or 14 miles away. We have since agreed with the United States on shipping corridors, and the Department of Transport has published maps of a corridor for incoming traffic and a corridor for outgoing traffic, so from maps one can get a precise figure within 100 yards as to how close it is.

Senator Grosart: Could we assert the right to keep them 200 miles off our shore? In other words, what rights are we asserting when we claim this jurisdiction up to 200 miles? Would we claim the right to say that no tanker can go through?

Hon. Mr. Davis: No, we are not claiming that. It is a matter perhaps of muscle. Where the two countries come together, let us say Maine—New Brunswick or British Columbia State of Washington, the boundary becomes infinitely thin; it is not 200 miles, it is just a line, and you are just nose to nose. What they do a yard over the line is their business and we have no control over that. This applies to a boundary line mid-way through a channel. If they are one yard on their side of the boundary line they are subject to the United States law only and there is no way we can deal with it, other than by persuasion.

The Chairman: They can come right in and stay in American waters all the way, even if we have sovereignty 200 miles out.

Senator Grosart: No, because Mr. Davis has said the route is 12 or 14 or 14 miles off shore.

Hon. Mr. Davis: It is only because in that narrow channel they can stay on the United States side of the boundary.

The Chairman: It is only the last few miles.

Senator Grosart: But if we are going to assert our complete jurisdiction, the jurisdictional right to say, "You cannot bring a tanker into this 200 mile area," we would then force them to stay 200 miles out before they even made the inshore turn.

Hon. Mr. Davis: Assuming we were able to do that, they would come down 201 miles out from our land, they would get down just off the Strait of Juan de Fuca and do a sharp left angle turn and come in, and they would always be in either international waters or in United States waters.

Senator Grosart: I am trying to find out what we really claim in this jurisdictional right. Could we claim, or would

we claim, the right to keep any tanker out of that 200-mile area?

Hon. Mr. Davis: No, we are not claiming that.

Senator Grosart: What do we claim? What kind of jurisdictional right is it?

Hon. Mr. Davis: On tankers, on any kind of shipping, what we expect we will get hopefully at the United Nations conference, but what we almost certainly will get in the long run, are world standards, first of the construction of vessels, secondly the manner in which they navigate, and thirdly practices and so on. It is conceivable that their vessels are so well built, their cargoes so well protected and so on that vessels could sail within a few yards of the shore.

Senator Grosart: So, in effect, at the moment we are calling it innocent passage.

Hon. Mr. Davis: If that is what innocent passage is.

Senator Macnaughton: From your experience, how useful do you think M.P.-to-congressman communication can be?

Hon. Mr. Davis: I think it is useful. I think any contacts are useful. They are certainly far better than members of elected assemblies only meeting in their own countries and never travelling to another country and listening to the point of view of elected representatives of another country.

Senator Macnaughton: I was just thinking of Stockholm, where we seemed always to be on one side and our United States friends were on the other. We had 80 votes and they had 20. The issues, of course, were freedom of the seas, offshore minerals and a few other things, but we had the developing countries with us. In other words, it portends a great many problems for the future.

Hon. Mr. Davis: There are areas in which we are naturally opposed to be United States, in broad policy areas. However, I would say that the number on which generally our interests coincide are much greater than those on which they differ. The United States, if I can characterize its position at the Law of the Sea Conference, was faced with a dilemma. It wanted to be heroic environmentally, but it did not want to give anything away from the point of view of shipping or national defence, so it flew the flag on whales; it ran out of whales, so it was then going to want the rest of the world to stop whaling. It was not ready to allow coastal states to apprehend tankers that went within a short distance of its shores.

Senator Carter: I should like to begin where Senator Macnaughton left off. I think Senator Grosart asked you to outline areas of agreement and disagreement, which you did. There were more areas of agreement than disagreement, as I gathered from what you said. Then in reply to Senator Macnaughton you said that there were policy areas where we are opposed to the United States. Are these the same things, the areas of disagreement that you mentioned in reply to Senator Grosart and the policy areas that you referred to in answer to Senator Macnaughton?

Hon. Mr. Davis: I hope so. I intended them to be consistent, yes.

Senator Carter: Would you enumerate the policy areas?

Hon. Mr. Davis: I would have to confine my remarks to environment, environment and fisheries really. I was

referring more specifically to the United Nations Law of the Sea Conference. I was saying that the United States concern about defence, the placing of strategic missiles, for example, or the movement of warships, was substantial, whereas it was not a matter that concerned us very much. Our approach to that conference was essentially that of a country with a vast territory and a lot of exposed resources concerned about protecting its territory and insuring that those resources were well managed. We differed because we differ in geography, in political clout and so on.

Senator Carter: I would find it difficult to regard that as much of a dispute. I think it is pretty logical. Their interests are different from ours, and naturally that will reflect in their policy. I was thinking more of policy areas where they did not have such a good case as they have for that. Being a world power they naturally do not want to be limited any more than necessary, and there is no big advantage to us to limit them. Are there any others where their case is not as strong as that?

Hon. Mr. Davis: I cannot think offhand of a case that I could outline in some detail where our interests and theirs differ fundamentally, and for the indefinite future.

Senator Carter: What differences there are spring mainly from the conflict of our own national interests?

Hon. Mr. Davis: Our special geography yes.

Senator Carter: We have been talking about boundary lines. What would you think of having boundary disputes handled by the International Joint Commission?

Hon. Mr. Davis: I think that is fine. As I understand it, the International Joint Commission's jurisdiction ends with salt water. It has never in the past dealt with instances of dispute which extended into salt water, but if the two countries agreed, if Ottawa and Washington agreed, in effect, a reference could be made to the IJC with respect to a specific problem.

The IJC has a great advantage for Canada in that we are equal to the United States. We have three members and the United States has three members. A further advantage, as opposed to some international tribunals such as the World Court of the Hague, is that the Canadian three and the United States three would be better informed and closer to the situation and would probably be able to hand down a decision which was in line with the IJC's impartiality of the past.

The tradition has been that Canada and the United States would take the recommendation of the International Joint Commission and not question it. I think if we were to refer it to some other body the chance is that one party of the other might challenge the validity of the ruling and not obey it.

Senator Carter: Do you think the IJC should have power to initiate its own investigations?

Hon. Mr. Davis: I personally do not. I think it should remain—I will call it a court of last resort. It should be as much a court as possible. It should always appear to be above the hurly-burly, the bargaining, the preparing of the argument on both sides. If it become an initiating body it would undoubtedly get into some controversial areas and might become discoloured in the eyes of many people, and would thus lose its credibility.

I think it is important that it deal with certain issues: Those issues on which the two nations, after long negotia-

tions and discussions, cannot agree, and they finally agree only to hand the issue to the International Joint Commission to arbitrate. And it is a final arbitration. If the IJC becomes an intervening body, then I think that is bad. I think it debases its reputation.

Senator Carter: Do you see a need for other international joint commissions in other areas with the present one as a model?

Hon. Mr. Davis: I do not know. I am a great admirer of the IJC. There may be other areas. None spring readily to my mind, however.

Senator Carter: We had two witnesses from the United States, Rufus Smith and Governor Curtis of Maine, both of whom seemed to favour arbitration as a method of settling disputes. What would your opinion be with respect to arbitrations as a method of settling disputes?

Hon. Mr. Davis: As an alternative to the IJC?

Senator Carter: Well, when you reach an impasse and cannot agree on a boundary dispute or some other dispute, it would be settled by arbitration. What do you think of the arbitration method? Apparently we have lost out every time we have used that method, have we not?

Hon. Mr. Davis: I do not know. Energy is an area of great concern to many people. We could well have an issue relating to the validity of long term contracts or something like that. I do not know. I hope it is possible for us to work out those difficulties and overcome them on a government-to-government basis rather than saying that we cannot resolve them and hand them to some third party to settle. But the United States is not a good example of a country which will follow the arbitration route. It has never allowed a dispute to enter, and it has never entered, itself, the World Court at the Hague. It will not enter it. Canada could take a case against the United States into the Court of the Hague, but the United States would not show up.

The Chairman: Honourable senators, I do not want to keep you or our guest too long, but I do have one or two points which I think might be dealt with shortly and which I would like to have on record.

Mr. Davis, in your opening brief you refer to receiving most co-operation from the provinces of Ontario and Alberta, but you regretted to say that you received the least co-operation from the government of British Columbia. As several matters of substantive international concern between Canada and the United States do involve British Columbia and the State of Washington, or that general part of the country, I wonder if you would touch on them for us. The type of thing I have in mind, first, is the Skagit River situation. I understand that that is presently before the International Joint Commission. Certainly, I do not want to go into areas which would tend to prejudice the work which the IJC is presently doing in that respect, but have you any comments on the level of communication which existed between the Government of British Columbia and the Seattle City Light Power Company and the government of the State of Washington during the period of controversy with respect to the Ross Dam?

Hon. Mr. Davis: The Skagit River issue has been a most difficult one. It has been difficult partly because the International Joint Commission recommended in 1942 that Seattle City Light, which is a power company owned by

the City of Seattle, should be allowed to build a dam just south of the boundary and should be allowed to flood back into Canada. The IJC made only one proviso, and that was that Seattle City Light and the government of British Columbia could agree.

Eventually, years later, in 1968 they agreed. There is still a threat, therefore, of a flooding back into British Columbia which most British Columbians and, I believe, most Canadians oppose. So it has been a most difficult problem.

First, we have the International Joint Commission approving this, and my problem as a minister in Ottawa was essentially, that we must never question a ruling of the IJC; it is above both governments. If we were to start reneging on IJC agreements we would open up many possibilities for the United States similarly to pull out of an agreement if it does not suit them, and this would have the effect of undermining the IJC for the future. So in that respect we have a problem.

I had another problem as a minister. The Seattle Light Company pressed on because B.C. had once agreed to this flooding. The company appeared before various courts in the United States, the principal ones being the U.S. Federal Power Commission. It was with very grave difficulty that I could get a message transmitted directly into that forum in the United States. My nextdoor neighbour in Vancouver could drive down to the hearing and stand up and speak or read a brief or whatever; but as a minister I found it very difficult going through External Affairs and hopefully, through the U.S. State Department to get the Canadian official position before that body.

The former government of British Columbia signed the agreement in approval so that they were for the dam being raised. The present government in Victoria is opposed to the dam being raised, but just washes its hands of everything. It says it is not involved. It says, "Go to Ottawa. It is a boundary. The federal government must resolve the problem."

The situation, as I understand it now, is that there is some negotiation going on, some money may change hands, and the Seattle City Light Company might forget the whole thing. But the liaison between Ottawa and Victoria in respect of this matter over the years has been very difficult: first with one government which wanted the dam

to go ahead, and then with another government which wanted the dam to be stopped, and wanted Ottawa to do the stopping. It was unsatisfactory all round.

The Chairman: I have just one or two other points, Mr. Davis. Only a week or two ago I saw again a reference by the premier of British Columbia to his government's proposal of a year or more ago that the Alaska oil be taken from Alaska overland by train down to the United States; and I recall rather vividly the Premier of British Columbia visiting Washington, D.C., where he unveiled that program in the first instance. I wondered if there was any liaison with the federal government at the time he unveiled the proposal—I think it was called "A Way Out"—and whether or not there was any environmental impact study done before he made that proposal.

Hon. Mr. Davis: Well, the British Columbia government proposal to bring Alaskan oil to the lower 48 states by train came as a complete surprise to the federal government, and, as you have mentioned, Premier Barrett announced this in Washington, D.C., not in Ottawa, Canada. He did have an official here at the same moment to explain this announcement, it having been made at that same hour in Washington, D.C. There were no environmental studies, to my knowledge, made by the Government of British Columbia, and of course, the Government of Canada had no prior knowledge of the project, so there was no way it could have done any environmental studies ahead of time. Also, as far as I know, there have been no environmental studies done since. I have therefore to assume that Premier Barrett did not take it very seriously then, and has taken it less seriously since.

The Chairman: Thank you, Mr. Davis. Are there any other questions?

We will adjourn now, but just before we do that, I would like again to thank you, Mr. Davis, for taking the time to come from Vancouver to Ottawa to appear before the committee and give us this helpful evidence today, which I know will be of assistance to us in forming what we hope will be a useful report.

I should say also, before we adjourn, that our next meeting is on Thursday, two days from now, at 9 o'clock in the morning, when we will have Professor Peyton Lyon before the committee.

The committee adjourned.

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Government
Publications



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 9

THURSDAY, MARCH 6, 1975

Eighth Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, March 6, 1975

(12)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 9:05 a.m. this day.

Present: The Honourable Senators Asselin, Cameron, Carter, Connolly (*Ottawa West*), Croll, Grosart, Lafond, Laird, Macnaughton, McNamara, Sparrow, van Roggen and Yuzyk. (13)

Present but not of the Committee: The Honourable Senator McGrand.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Professor Peyton Lyon, Professor of Political Science and International Affairs at Carleton University, Ottawa, Ontario.

At 10:55 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, March 6, 1975

The Standing Senate Committee on Foreign Affairs met this day at 9 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (Chairman) in the Chair.

The Chairman: Honourable senators, I have explained to our witness the number of other Senate committees that are conflicting with our sitting this morning. We are privileged this morning to have as our witness Professor Peyton Lyon, presently with the School of International Affairs at Carleton University.

Professor Lyon was born in Winnipeg. It is remarkable the number of brains in Ottawa that I find come from Winnipeg. Professor Lyon went to the University of Manitoba. He went on to Oxford as a Rhodes Scholar. I might say, professor, we had another distinguished Rhodes Scholar here in the person of Mr. Jack Davis only two days ago.

Professor Lyon joined the Department of External Affairs in 1953 and served until 1959. Then he returned to academic life. He is the author of numerous articles on Canadian foreign policy and was an outspoken critic of the government's troop reductions in NATO. He may well have some interesting views on Canada-U.S. relations, how they stand at the moment, the merits of quiet diplomacy as opposed to whatever the opposite is. I am pleased to say that Senator Carter has agreed to start off the questioning this morning.

Before I call on Professor Lyon for an opening statement, may I make the following announcement. The next meeting of this committee will be on Tuesday, March 18, at 2.30 p.m., when we will have two witnesses commenting on the International Joint Commission, a follow up to Dr. Cohen's appearance. These witnesses will probably look at the IJC a little more critically from the outside. They are Mr. Leonard Dworski and Mr. George Francis, who have made a special study of the IJC and the U.S. operations and the Great Lakes basin in particular. They gave some very interesting testimony two years ago before a United States congressional committee on the subject. Professor Lyon, if you will proceed with your opening statement, Senator Carter will follow.

Professor Peyton Lyon, School of International Affairs, Carleton University: Thank you, Mr. Chairman.

Honourable senators, I am flattered to be invited to take part in your discussions. I have been following the record of your proceedings with a good deal of interest and I hope that they and your subsequent report will have a real impact on policy. Whether it does or not, I can assure you that the record is already a service to students and teachers of Canadian foreign policy. I am having my students read some of your proceedings. Even if you had

been listening carefully to the introduction, you would not have noticed any reference to my experience in handling Canadian-American relations for the good reason that I am the first of your witnesses who is unable to speak on the basis of a good deal of firsthand experience in the conduct of the relationship. However, that does not inhibit me! Like about 20 million other Canadians, I am a born expert on Canadian-American relations!

I would like to start off with some comments about the "special relationship". It is only about six weeks since the Secretary of State for External Affairs went out to my home town, not to praise the special relationship but to bury it. I agree with Rufus Smith that Mr. MacEachen's speech did not really contain much that was new; it contained very little that one could take exception to. It was certainly not anti-American in any sense. On the whole, I think it was a good speech. But I wish, in going out there to conduct this burial service, that Mr. MacEachen had been a little clearer about the nature of the corpse that he was interring. If you read that speech you will find that it is vague as to what is meant by "special relationship" in the Canadian-American context, and that is what I want to zero in on for a few minutes.

It seems to me that there are at least three important and related meanings of this concept: one is structural; the second procedural; and the third amounts to a special Canadian plea.

On the first, the structural meaning when writers and speakers refer to the very special Canadian-American relationship, quite often they are referring to a combination of two things; firstly, a very high degree of interaction across the international border; and, secondly, an extreme disparity of power. Too many Canadians go on to conclude from this situation of high interaction and disparity that it must be very unstable, that it really cannot last, and that sooner or later in this "disparate dyad"—a term used by political scientists to refer to a situation where two countries interact extensively and one has a great margin of power—to bigger power, even without wishing it, is going to absorb the smaller power.

It seems to me that this notion of the special relationship is wrong on both counts. It is not that unique, and it is certainly not that unstable. It is not difficult to think of quite a number of other disparate dyads. I think, for example, of Ireland and Great Britain, Norway and Sweden, Belgium and France, Luxembourg and Belgium, New Zealand and Australia, Mexico and the United States, Austria and Germany. The list could be extended. You do not even have to add as the Prime Minister did rather unfortunately last week, Holland and Germany. It is a fairly significant list and, collectively, these other dyads display all the important aspects of the Canadian-American dyad. I am very well aware that in each case there are significant differences from the Canadian-American dyad. I am just talking generally of the fact that, taken together,

you will find all the supposedly unique features there. If you reflect on it, it does at least qualify the notion of how utterly unique our relationship with the U.S. is and, more particularly, how unstable it must be.

In fact, if you refer to history, you will find that the absorption by a bigger power, peacefully, without the use of force at all, of one of its smaller neighbours is very rare. One of my brighter colleagues has even argued in a recent article that peaceful absorption—the nightmare of the Canadian nationalists—is literally impossible.

This hypothesis tends to be confirmed by recent trends in Canadian-American relations. This relationship is just so complex, continental integration has so many different strands, that it is very difficult to come to grips with it without breaking it down. I have been attempting to break it down into seven different dimensions in order to assess each one independently, and then to see if we could put it together into a composite picture. I am thinking of the formal economic arrangements; the actual transactions in terms of goods, bodies and messages; the joint political institutions; the non-governmental organizations that are important; the degree of policy co-ordination that has been achieved, both formally and informally; attitudinal integration; and cultural homogenization.

My preliminary estimate of what is happening in each of these dimensions is that in three of them we have attained a high degree of integration in North America; in another three it is only moderate; and in one of them it is trivial. But that is of less interest to us than what the trends are, and over the last ten years my estimate is that in three of these dimensions the trend is imperceptible; it is really just about equilibrium. In one of them there has been an increase in integration, and in three there has been a modest but decided decrease. There is quite a bit of guesswork involved in this, but I think that any reasonable person looking at the evidence would come to the conclusion that, if you had to categorize what has been happening in the last ten years, then, instead of it corresponding to the nationalist nightmare of ever-increasing integration and absorption, in fact there has been a significant degree of disintegration—that there is now a greater degree of separateness between Canada and the United States. So while it is true that there is a great disparity of power, and a great deal of interaction, I can find no grounds for the fear that sooner or later this must lead to the United States gobbling Canada up.

Furthermore, I see no reason why we should be totally inhibited from entering into new and co-operative arrangements with the United States. If a proposal makes good sense, we should do so. We should seriously consider the possibility of "selective integration," of perhaps fostering disintegrative tendencies in some dimensions and encouraging integration in others, and not be unduly worried about the prediction that we would be signing Canada's death warrant were we to conclude, for example, a free trade arrangement with the United States. I can see quite a few other things that we might do with our American friends without doing anything that would be tantamount to signing our death warrant.

The second meaning of the "special relationship"—this is really the most important one, and one that I hope will last—had to do with procedures or, as one of my colleagues calls it, the "diplomatic culture," the style of conducting business between Canadians and Americans, especially official business, "Special" in this second sense means especially easy, informal, extensive, responsive and, in

short, friendly; on both sides the masses still refer each to the other country as "our best friend," and act accordingly.

To be more specific, this second meaning of "special relationship" breaks down into a number of components. One would be exceptionally easy communication—the fact that most of us have not just a common language but, to a substantial degree, common values—plus the telephone, of course. There is the fact that so many Canadian and American officials are on a first-name basis with their counterparts. There are just a myriad of interactions that no single person could keep track of.

It is also implied that the two partners in this special relationship grant one another a special sort of consideration. They treat one another as friends and believe in consultation, not only when it is necessary for joint action, as it often is, but also when it is necessary to reduce surprise, to minimize the harm that unilateral action, taken quite properly, might cause to the other party. It assumes a high degree of goodwill between the two nations and a genuine wish that both should prosper; when something happens to affect adversely the fortunes of the other, there is genuine regret and certainly never any satisfaction shown in the humbling or the hurting of the other partner. In particular, there is acceptance on both sides that the other party is well motivated. There is strong disposition to regard interests as, if not common, then at least as compatible, and when differences of interests do emerge, they are typically treated as problems to be solved rather than issues that lend themselves to confrontation tactics, or an attitude such as, "That is our position. Take it or leave it!"

There is also the disposition, as this committee has already studied, as far as possible to let the facts resolve the issues. If it is a problem in which a high degree of statistical or engineering fact is involved, then there is an exceptional willingness to allow these facts to dictate a reasonable solution in the interests of both parties.

The special relationship involves trying to keep any official criticism that we might feel it necessary to make of the other party as quiet as possible. It may well need to be emphatic but it should be registered, as far as possible, through diplomatic channels. This should not inhibit private citizens, such as myself; but official spokesmen should, as far as possible, convey their criticisms and arguments through diplomatic channels.

The special US-Canada relationship involves an almost complete absence of threats, and also a great hesitation about linking issues. It is largely a matter of taking one issue at a time, and not suggesting that, "If you do not yield on this one, we will raise another one." That may be implicit; sometimes it is difficult to avoid it; but it is typical of the relationship, especially in comparison with other two-actor systems, that linking is exceptional. The system has been made by a reluctance to come up with packages, to link one issue with another, or to indulge in explicit threats. In short, the special relationship is one of good friends and good neighbours.

I need not tell you that the reality has not always lived up to this myth. There have been, particularly in recent years, far too many departures from this rather idyllic relationship that I have been describing. On the other hand, I agree with Ambassador Porter in his Winnipeg speech that there is enough of reality in this myth to make the relationship very special indeed. That is the conclusion that most scholars come to, as well as practitioners who

have had extensive experience in the relationship between other pairs of countries.

Some Canadians view this aspect of the special relationship with apprehension. They feel that if there is too much civility, too much warmth, in the relationships between the officials of the two countries, Canadians are going to lose their identity. I have heard it said by a prominent member of the other chamber that this country was founded on anti-Americanism, and that what we need to keep it a viable concern is a good anti-American binge at least every five years. I concede that there is a little in this, but I personally reject the implied policy prescription. If you cannot be a Canadian without being anti-American, I am not sure I am interested in remaining a Canadian. There must be a better basis for Canadianism than that.

What is more important than my opinion, is that Mr. MacEachen, in his speech, made it clear that in burying the "special relationship," he was not burying this second aspect. He really does regard the United States as Canada's most important partner, and best friend; he went on to add, not just by circumstance but also "by choice." You will recall that he wound up by urging an increase in consultation between Canada and the United States.

I found that a somewhat odd reply to Ambassador Porter, who had documented a specific list of Canadian breaches of the principle of consultation. Mr. MacEachen chose to disregard the specific bill of indictment, but the fact that he reiterated his determination to improve consultation is nevertheless to be welcomed.

The practice of consultation, of course, has not been good in recent years. I understand that there are lingering personal resentments, especially in the field of trade and finance. I am uneasily aware that the breaches in good practice, especially in the field of advance consultation, have probably been more numerous on our side in the last couple of years than on the side of Washington. I do not know how to explain this. It does not seem to be a matter of policy determined either by the Secretary of State or the Prime Minister. It seems to me that some of our political leaders and senior officials are showing off how much in step they are with the nationalist element in Canadian opinion. It may be that occasionally some new possibilities of sensible, co-operative arrangements with the Americans are being sabotaged by premature publicity. Certainly the Trudeau government now appears to be even leakier than the Pearson administration, and some of these leaks are making it more difficult to maintain the special relationship in the good sense that I have been outlining to you.

I conclude on this point that the relationship still is pretty "special", but not as special as special in this proper sense as it has been or, indeed, as it should be.

The third meaning of special relationship, and I think this is the aspect that Mr. MacEachen did intend to bury, and rightly so, is a combination of the first two. It tends to be a Canadian interpretation rather than American. You are, I think familiar with argument. It suggests that because Canadians and Americans are such good friends, and because there is such disparity in power, one being a giant and the other a pygmy, that the weaker has the right to expect on every occasion preferential treatment—preferential treatment not only in comparison with other partners of the United States, but in comparison with the treatment that Canada concedes to the United States.

You are familiar with the many special deals and exemptions that Canada has claimed, and generally received. In

fairness to our negotiators, they frequently have insisted that a special exemption be given on the basis of arguments about the American national interest. It has not all been just a question of pleading this third aspect of the special relationship. On the other hand, the notion that because we are friends, and because we are weak, the Americans have to treat us better than we are going to treat them, has, in my mind, formed an uncomfortably large part of our appeal to the United States for special treatment. Furthermore, when you go to a partner with that sort of attitude, expecting that sort of special treatment, then there are some costs. It does condition your own thinking, I think, to be unduly submissive, even without having to confront specific conditions or threats on the other side.

If there ever was a case or a need for a special relationship in this third sense, I agree with Mr. MacEachen and others that the need is long past, and I am glad that the Prime Minister has ceased to talk of the relationship as being that of an "elephant and a mouse". When he went to France a few months ago he referred to a relationship as one between a great power and an "average power". That is certainly progress! If you look at the actual strength of Canada, even "average" is understating it a bit, and certainly, if you look at the outcomes of different bargaining situations between Canada and the United States, we have done pretty well in the last few years, and indeed for a great many years.

So it is both more consistent with the facts and with Canadian self-respect to stop asking for special treatment, and to welcome and to expect full reciprocity in our relations—reciprocity not only in deeds, but in rhetoric. I look forward to the day when an American leader can come to Canada and speak as frankly about our affairs as Canadian leaders for decades have been doing when they go down to the United States.

There are some Canadians who complain that the special relationship has been too secretive, that it has been too quiet, and this has provided a cover-up for the gradual dragging of Canada into the American empire. Some scholars, some pretty respectable scholars, have been pointing to the batting average on issues that become highly publicized; they have argued that when an issue between Canada and the United States does come out into the open, and become the subject of a really heated row, the Canadians generally do better. From this some have attempted to generalize that it would be in the Canadian interest to abandon quiet diplomacy and go in for squeaky wheel diplomacy.

I dissent. However, I must concede there are some agreements that should have been better publicized. I certainly agree that after the negotiating stage, before ratification, there should be a full public debate. I also agree that it is easier for Canadian negotiators to argue that their public opinion is demanding certain actions, or even to manipulate public opinion to make it a diplomatic asset and also that the smaller partner usually gains more from the sympathy of other countries when a contronessy becomes publicized.

I also concede that there can be issues in which there is a moral imperative, when governments are bound to criticize openly. In the Canadian-American relationship this situation is very rare, and moral censure should never be indulged in without a careful consideration of the consequences. I also concede that in recent years there has been less need for Canada to use quiet diplomacy to influence

American policies with respect to third countries. I agree with the suggestion that Mr. Kissinger, although he has not much time or affection for Canada, is probably the most Canadian Secretary of State we have had in Washington since World War II. The sort of things he has been trying in the field of arms control and detente are very much the sort of things that Canadians used to employ a fair bit of their diplomatic credit in Washington to promote.

So there is something to be said for the anti-quiet diplomacy case, but there is a good deal more to be said in favour of quiet diplomacy. It may be time that Canada has done well with issues that because highly politicized. That may be true, but it says nothing about the base of the iceberg that is hidden from public view. The outside critic simply does not know what is going on in there. It is probably true, as most bureaucrats seem to feel, that Canadians do even better when issues are kept out of the headlines, and are handled through traditional diplomatic channels.

It is certainly obvious, to me at least, that foreign criticism is harder to take when it is issued in a public way, especially if it is in line with what domestic critics of the administration are saying. It is a lot easier to make concessions in private, especially if you are the president of a big and proud country. I understand why Mr. Pearson, for example, went down to Temple University and gave the speech he did. I agree with the advice he was offering, but my reluctant conclusion is that, by offering that advice publicly, and in the United States, he made it more difficult—not easier—for President Johnson to suspend the bombing of North Vietnam.

The costs of public rows and confrontations are not always evident at the time. We could succeed, if we engaged in too many of them, in simply altering the image of Canada and Canadians which is characteristically held by American decision-makers. It seems to me that these rows, if they are effective, are largely effective because they have a certain ability to shock. If the American notion of Canadians is that we are very reasonable, and good friends, and then we scream once in a while that we are being hurt or badly treated, American decision-makers are going to take notice. If we are doing it every day of the week, or at least every week of the year, that effect wears off, and we get the reputation of being simply a tiresome nag. It could even be that we would acquire a reputation for building up issues in the manner of de Gaulle's France, and the effectiveness of our representations in Washington would be greatly diminished.

I could go on, but am probably preaching to the converted here. It seems to me that quiet diplomacy is still the best method as a steady diet, in handling our relations with the United States.

Mr. Trudeau agrees. Indeed, sometimes he carries the quiet diplomacy approach too far in our relations with the United States. Although he personally carries it pretty far, however, I wish he were better able to impose this principle on some of his ministers and officials!

One last point. Assuming that the government really does want to practice quiet diplomacy, and to re-establish and maintain the special relationship, in the second, "good", sense, could it now get away with it? There have been some suggestions that public opinion is now too aroused, that Canadians have become too nationalistic, that a government, even if it wanted to, could not get away with behaving in this way.

First let us take a quick look at American opinion. It seems to me that American mass opinion is still about as ignorant of Canada as ever, and still has as benign an image of Canada as ever. There was a study conducted for External Affairs by Gallup a couple of years ago; this confirmed suspicion that the American masses tend to love us. They really do think we are the nicest foreigners going, but they know very little about us. There are some regions of the United States, especially those being hit by our energy policies, where this could be changing. But, basically, American public opinion presents no problems in the conduct of good, congenial relations between the two countries. Where there are objections, it tends to be more to the style in which we announce our policies—to the apparent satisfaction we get in being able to announce that we are going to be tougher—than to the actual substance of the decisions being made.

On the American side, however, there is now a different attitude within the decision-making elite. A significant number of officials, especially in the Treasury, continue to be, if not anti-Canadian, at least very unsympathetic to claims for any special arrangements with us. For some years then has been building up a certain resentment of Canadians, and this feeling has survived Secretary Connally. It is not as strong in the State Department, but I think you will find that the somewhat tougher Kissinger attitude towards allies is widely shared in that Department. You should pay attention to speeches, such as Mr. Porter's, which suggest that there will be insistence on reciprocity in our relations.

On the Canadian side, there is lots of Gallup poll data to suggest a rising concern about American control over our economy. A couple of years ago, a majority right across the country indicated they would even be prepared to accept a diminishment in their standard of living in order to regain Canadian control over the economy. As you are well aware, some elite groups, especially publishers and insecure academics, are being very shrill in their demands for change in our relations with the United States. They appear to want a reversal of the trend of generations.

My impression is that this view is now affecting the federal bureaucracy. A significant number of officials are trying to satisfy what they take to be a demand on the part of the Canadian public for a much tougher line in dealing with the Americans. Some of my ex-students tell me that it is becoming a little uncomfortable in some parts of the Canadian government to advocate consideration for American concerns, even when it can be shown that it would be in our interest to show that consideration. Certainly, it would be difficult in the present climate to come up with proposals for new cooperative measures with the Americans.

I am not sure whether this is leadership on the part of officials, and some ministers, or whether it is followership. It seems to me it is more what they assume the public wants rather than what, on the basis of their own experience with the Americans, they think is desirable. Furthermore, if my hunch is right, I am not sure that they are correct in their reading of public demands.

In two successive elections, when the pollsters asked the voters what issues they regarded as important, only three per cent cited American control as the most important. What we appear to have is a very widespread expression of concern, but, it is not very deep; on the basis of this data, it is not all that strong in the minds of the Canadian electorate. The leaders, the men running for office, seem to have

shown some acknowledgment of that; during the last two elections, they have not made a particular issue of American domination of Canada.

Furthermore, there is a serious study of Canadian opinion conducted each year by a group of academics in the University of Windsor in which they conduct many more interviews than Gallup. The number is 5,000. On the basis of that information, Professor Murray has concluded that, while there is rising nationalism in Canada, especially economic nationalism, nevertheless, when it comes to policy, Canadians are still strongly conservative, with a small "C". He bases that conclusion on having put to his sample of 5,000 Canadians the 3 options that were outlined in Mr. Sharp's paper. He found that this 5,000 were 2 to 1 against the third option. About 40 per cent of those asked preferred the first option, in other words, keeping things much as they are; about 20 per cent wanted to increase our relations with Europe and Asia, and only about 30 per cent preferred the third option, which as you know, calls for a reduction in our relations United with the States and in our vulnerability in dealing with that country. I would conclude from this that Canadian public opinion is not a decisive factor. If our leaders were convinced that we should have a somewhat different relationship with the United States, they would have considerable latitude in going about doing what they think is right. There are changes, of course, in the public mood, but it is largely concentrated in certain elite groups. If the government wanted to restore the special relationship in the good, second sense, the Canadian public would not be any great barrier. Thank you, Mr. Chairman.

The Chairman: Professor, thank you very much. That was a most comprehensive overview of our relations with the United States. Certainly, the evidence of many of the witnesses we have had to date would fit into that context. It is the first time we have had somebody attempt to bring it all together for us in that fashion. If parts of your conclusions—which, of course, I appreciate are your own opinion—are accurate, with respect to the developing reaction to the United States within some of our bureaucracy, then it is probably very timely that we are undertaking this study.

Now, Senator Carter, I would ask you to begin the questioning.

Senator Carter: Thank you, Mr. Chairman. I should like to echo your compliments to Professor Lyon for the very fine presentation he has given us this morning, and for the very frank manner in which he has dealt with the issues with which this committee is particularly seized, in our relationships with the United States.

Professor Lyon started out by referring to Mr. MacEachen's reply to Ambassador Porter, and I did not write down the exact words, but I thought he said that he was not quite sure which corpse was being buried, or which form of special relationship was being buried. I do not know if Professor Lyon saw a television program last Sunday *Question Period*, wherein Mr. MacEachen was questioned about this very thing, and he made it very clear then that what was being buried was this third reference that you made—the third special relationship where because of the difference in power and strength the weaker should expect special consideration from the other. I think he made it clear that from now on we could expect that both Canada and the United States would be more concerned with their own interests rather than with the interests of the other party.

Professor Lyon: I am delighted to hear that, senator. I did not see that program, but it was my conclusion that he could not have meant, in the context of his whole Winnipeg speech, that he wanted to kill the special relationship in the good sense. If he was more specific on Sunday, then I am delighted.

Senator Carter: He was questioned very closely on that. You said that the possibility of the absorption of Canada by the United States was very, very remote, and I think the inference was that Canadians are unnecessarily concerned about that. I would like you to elaborate on that, because I do not think that Canadians think of political absorption so much by the United States as they do of economic absorption and, again, not by the United States government but by the multinational corporations based in the United States. They fear that they are the instruments which will bring about the absorption sooner or later, simply by the tremendous control they have over our natural resources, and that if we do not act very soon, then it will be too late to regain any control over our resources. Would you like to comment on that?

Professor Lyon: Just two comments. In this particular scenario, the one in which a smaller country loses its independence and its soul to a more powerful neighbour—I quite agree that usually when people flesh that out they point to what is happening in—to use Karl Marx's phrase—the economic substructure, and this is why there has been an irrational fear in the minds of many Canadians about free trade with the United States. There is an assumption that if we have more economic integration or interaction than we already have, then we must pass the threshold beyond which there is no recovery, and that sooner or later all our political institutions are going to be dragged into line. All I can say is that I cannot think of a single case where this has happened. The experience of history suggests that it is very improbable. So does the experience of the last few years in North America where, after 1945, there was a very rapid acceleration of economic integration, with American investment pouring in, as you know. At the same time, and particularly in the last decade, there has been disintegration in most other respects. This Marxist proposition, that as economic matters go everything else is going to be dragged along, even if it takes a few years longer, has been disproved by our own recent experience. That may be a short-term view; if you are thinking in terms of generations or centuries, if you are a Toynbee or a George Grant, you might see it differently. All I can say is that this particular nightmare is not supported by experience elsewhere, and it is not supported—indeed it tends to be refuted—by our recent experience where, along with an increase in economic interaction, there has been a greater determination on the part of Canadians to maintain their identity; in most of the other dimensions that I mentioned, there has been disintegration rather than integration.

Senator Carter: You have mentioned free trade, and there seems to be a lessening in Canada of the fear of free trade. I notice that, since we have had a slump in the automobile industry, some unions are now advocating a sort of free trade in automobiles. The unions themselves apparently are not as apprehensive as they have been. But from the standpoint of developing Canada's own industry, do you think that free trade is feasible; and, if so, how would you phase it in? It is certainly something that could not happen overnight; it would have to be phased in gradually.

Professor Lyon: Senator Carter, I understand that this committee will have an opportunity to consider the economic relationship in some detail, and that you will have witnesses here, I hope, who are far more authoritative on that point than I am. But it does seem to me that we are already approaching free trade. We now have free trade for about 75 per cent of our goods, and I am told that if the GATT discussions turn out the way we hope, and half expect, it may be up to something over 90 per cent. So we are approaching free trade without the disastrous consequences that we feared in the past. I am even more confident, when I look at the experience in free trade areas like EFTA, that what is referred to in Mr. Sharp's option paper as the inevitability, once you have a free trade area, of moving to a customs union, an economic union and a political union, that that has just not been borne out by historical experience. Free trade areas have proved to be really quite stable, and if they have been unstable, then they have tended to disintegrate rather than to drag the participants on into ever tighter forms of economic and political integration.

The Chairman: If I could interject here, as you know, Senator Carter, we will be moving, in not too many weeks, into a formal study of shifting gears, so to speak, in the mechanisms to trade, and we might well have Professor Lyon back again during that study because he has very definite views in that area.

Senator Carter: I should like to ask one more question, and then I have to go. I am sure other senators have questions to ask as well.

Senator Croll: I have to go also, so I got Senator Carter to ask the questions.

Senator Carter: You are a strong advocate of quiet diplomacy versus unquiet diplomacy, and we had a good many examples of that in Mr. Pearson's day when we had Arnold Heeney, who was a great example of quiet diplomacy. This bears out what you say, that it is so easy for either side to make concessions on the quiet rather than in the glare of publicity and public announcements. But then we have had the other kind of diplomacy, with the Secretary of Agriculture and Secretary Connolly, in his day, and our own Eugene Whelan, Minister of Agriculture, and at our last session we had a witness, the Honourable Jack Davis, former Minister of the Environment, who practised both varieties and seemed to be very successful. The first question I want to ask on that point is this: Do you think the unquiet diplomacy is increasing at the expense of quiet diplomacy; and is there a place for both brands?

Professor Lyon: I am tempted to say that, in speaking of quiet diplomacy, the adjective is superfluous—that either it is quiet or it is not diplomacy. I think that is the bias of almost everybody who has practiced diplomacy. I was only in External Affairs for six years, and in a very junior position, but I was there at an impressionable age and picked up the firm conviction that, as a steady diet, diplomatic methods are by far the most satisfactory in handling international relations and, I suspect, many relationships within countries as well. But to me that has always been consistent, and was consistent in the minds of Mr. Heeney and Mr. Pearson, with the occasional necessity to focus a lot of publicity on an issue.

I think the big point of difference comes when you are talking about what is going to be characteristic of the diplomatic relationship. Some of the critics are now sug-

gesting that almost everything should be done in the public gaze, whereas the advocates of quiet diplomacy would say that that is something you should hold in reserve, that you should only use unquiet tactics perhaps once or twice a year, that if you begin to make them a steady diet, they become very quickly counter-productive.

Senator Connolly: As a supplementary question, professor, you are talking about quiet diplomacy as against perhaps noisy negotiation.

Senator Carter: Outspoken.

Senator Connolly: Quiet diplomacy against outspoken, noisy negotiation. Quiet diplomacy, I suppose, would include also quiet person-to-person negotiation. I take it that when you talk about diplomacy you are not talking about using the machinery of External Affairs, a third party machinery, to conduct the dealings at all times. I take it that you are not excluding what Senator Carter referred to a moment ago as the success of Jack Davis in his personal negotiation?

Professor Lyon: No, I am using it more generally. I would support Ambassador Cadieux that it is very important that our Department of External Affairs have some knowledge of what is going on—

Senator Connolly: Of course.

Professor Lyon: But the relationship is certainly too complicated for any one department to handle and I think we have gained a great deal by this multitude of personal links between officials.

Senator Carter: I have one last question, right on this same subject. You referred to Mr. Pearson's pronouncement at Temple University which probably defeated its own ends. I would like to have your comment on the situation that arises when the Canadian public demands information. This was the case in this situation. There was a public demand and pressure on Mr. Pearson to speak out, to give some kind of moral leadership. Do you think that should be suppressed? Is it justified under some circumstances?

Professor Lyon: It is a matter of judgment for the political leader in question, whether that sort of public demand is irresistible. I would like to think that even when the demand is very strong, if the leader does not agree with it, then he would not feel he has to articulate it. As a matter of historical record, Senator Carter, at the time Mr. Pearson made his speech at Temple University, I am virtually certain that there was still a majority of the Canadian public in favour of the American involvement in Vietnam. Sometimes we are tempted to read a greater amount of wisdom into the Canadian view than the record will confirm. At the time that Mr. Pearson made that statement, he was very sensitive to elite opinion in this country, particularly in university circles, but there was no evidence that majority opinion was hostile to the American action in Vietnam. If he was responding to some elements of elite opinion in Canada, he was certainly not responding to the advice of his officials, most of whom, especially those who had service in Indochina, were decidedly more sympathetic to the South Vietnamese-American position than the typical member of the Canadian elites.

Senator Carter: I would like to put this in more general terms. Is there a time or are there circumstances when duty requires a person to give moral leadership, and to give

this moral leadership he has to announce publicly what he stands for, even if it is contrary to the desires of his best friends?

Professor Lyon: We are talking about two things, leadership and followership. A moment ago you were asking if a leader should respond when there is a public demand—if as their leader he should articulate their views—

Senator Carter: Both cases are possible.

Professor Lyon: I have stronger views on the second case. I think a political leader who has a conviction on an important moral issue, and a conviction that it is his duty to speak out, even in defiance of public opinion, he should do so. I think Canada should if anything be more vigorous in our criticism of some regimes, I very much regret that we were so quiet when Japan was invading Manchuria, for example. On the other hand, I do not feel that the United States has characteristically behaved in such a way that we should expect our leaders to tell them off on moral grounds. I just do not see that. They have made grievous errors, but I think both the facts and good relations dictate that we should concede them good motivation, even in Vietnam. Nevertheless, if Mr. Pearson had felt as strongly as Mr. Walter Gordon did about the evil of the U.S. involvement in Vietnam, then I think Mr. Pearson should have said so.

Senator Carter: Thank you.

Senator Laird: Mr. Chairman, actually, Senator John Connolly jumped the gun on me with his supplementary question. As a matter of fact, we had a very interesting meeting recently. I do not know whether Professor Lyon has seen the printed report yet.

Professor Lyon: I have not seen the Jack Davis one.

Senator Laird: Not the Jack Davis one, but the report before that. Two people came here, Premier Hatfield of New Brunswick and the former governor of Maine, Mr. Curtis.

Professor Lyon: I have not seen that.

Senator Laird: Perhaps I might say a few words to tell you that it came out clearly in their evidence that they had the most informal relationship as between the two men, which certainly promoted the solution of problems such as arose between New Brunswick and Maine. I suppose this is hardly in accordance with protocol, but in view of the history of at least that one instance would you favour that kind of diplomacy?

Professor Lyon: I have not reflected a great deal on that, but I think I would welcome it. I think the only provincial initiative that has really given me cause for concern was the Quebec challenge a few years ago, when it was not just a case of trying to develop other ties to solve problems, it was also to score points and to achieve diplomatic recognition as a sovereign entity. That of course I very well deplored, I would also deplore the provinces establishing mini-embassies in Washington, and starting to interfere in negotiations between the two national governments. But as to relationships across the border, especially between neighbouring states or neighbouring cities, I really do not see any great danger in that. In any case they are inevitable, I would think. I hope that the provinces will keep on being informed by Ottawa. I welcome the fact that the federal government is now giving serious attention to provincial interests in the formulation of its foreign policy.

There is a whole new bureau in the Department of External Affairs that did not exist when I was in the department fifteen years ago, one that is out to service the provinces, and to provide relevant information. I rather like most of what I hear is going on between the provinces and Ottawa in the conduct of their external relationships.

Senator Laird: I think both Premier Hatfield and former Governor Curtis made it plain that they were not attempting to avoid informing and acting in accordance with protocol so far as the federal governments were concerned. I believe they were getting results, which is the important thing. Secondly, I would take it from your answer that it is within the bounds of reason that that is a useful method of communication and the solution of problems.

Professor Lyon: In ticking off Quebec, I think it only fair to mention that some other provinces have, in the past, behaved pretty mischievously. I think Mr. Bennett, of British Columbia, during the negotiation of the Columbia River Treaty, was behaving less well than a good Canadian should.

Senator Laird: Yes. There is one other thing that has always been a peeve with me. We have, in this country, a relatively small but very vocal group of ultra Canadian nationalists. We can work out all of the mechanics of consultation and all the rest of it, as between Canada and the United States that we care to, but the fact is that so often I have found that the pronouncements of people of some of the provinces in Canada which are ultra Canadian nationalist, and obviously directed principally against the United States, have the effect of scaring off Americans from legitimate investment in Canada. Now, perhaps this is an unfair question to put you, since you are not an American, but from your experience, do you consider this type of conduct reprehensible in trying to promote a proper relationship between the two countries?

Professor Lyon: As far as scaring off investment is concerned, I don't worry too much about that now. I am inclined to go along with majority opinion in the country that we probably have enough foreign investment. I may be wrong, and you have undoubtedly thought a good deal more about investment than I have. However, I tend to be alarmed by the impact of this nationalist group on some other aspects of the Canada-U.S. relationship. For one thing, their concern to drum out of our universities all non-Canadians, especially Americans, has been unfortunate. Some of the things they are demanding, and getting, in the field of culture, I agree with. On the other hand, if you allowed their demands to be fully implemented, it would produce a situation in Canada that I would find very difficult to accept. There are almost fascist overtones to some of the demands being made by the more extreme Canadian nationalists.

Senator Laird: We are having that very problem at the University of Windsor, in my home town.

Professor Lyon: Having said that, I hope you will not take it amiss if I make a comment about this committee and its witnesses. It seems to me that all of you are perhaps just a little too reasonable. I do not spot a nationalist in the whole lot! Your witnesses have been too much confined to nice Americans and reasonable Canadians, and I hope, some time in your deliberations, you will hear the authentic voice of a "Canadian nationalist." I do not think they speak for the masses, and I do not think that a government that knew its mind, especially a government

with a majority, as Mr. Trudeau now has, would need to be coerced by them. On the other hand, they are having some impact on the bureaucracy and on policy, and I think it is important that you understand their position rather than hear it from someone who is essentially unsympathetic to it, as I am.

Senator Laird: Some of us would like to have the opportunity of cross-examining some of those people.

The Chairman: I think I can assure members of the committee that we do not intend to confine our witnesses only to reasonable men. We will give everybody an opportunity to appear in due course. We did, however, want to start off with what we are basically studying at the moment, which is the mechanisms that exist between the two countries. Other things will follow in due course.

Senator Connolly: These questions are difficult, perhaps, and certainly they are not related to one another. Perhaps they are a little beyond the scope of what Professor Lyon was talking about, even.

On the question of the special relationship, I have often wondered whether we are caught up in a situation which has developed over the years, perhaps because we in Canada do not realize it.

We have been told, both collectively and a good many of us individually, that Canada has a relatively large, relatively strong kind of diplomatic clout in international affairs. They say we stand well in the councils of the United Nations; certainly, in our foreign aid programs, and generally speaking in our dealings internationally, we have a fairly good image. I wonder whether, when it comes to international dealings, particularly in the field of economics, that situation has hurt us a bit. We may have the capacity to present a moral picture—a reasonable picture—when it comes to political problems in the international field, and to back that up with a record that is pretty good over a good many years; but when you come to an economic crisis, like, for example, the one that came along in the summer of 1971, arising from the Connolly problem—well, not so much the Connolly problem, but the balance of payments problems, with which the Secretary was concerned—we get into a position of that kind, where we have been victimized because we have these strong economic ties, this dependence, on the markets of the other country, as between Canada and the United States.

If the United States decides that they have to restrict imports, and do it by impediments to trade, and other measures of that kind, we are simply in a position where we say, "Please do not do it to us, because we have a special relationship;" and, of course, we have, and it has been building over the years. It was not only building in the private sector, as in the case of the Bombardier snowmobile, it was building back in the war years, in the public sector, when we geared ourselves here to producing for the war effort, when the portion of the production that we had in this country was essential for the whole program in the United States. If we had not done it, if we had not let them have what we produced, their program was going to fall and fail. Now, is there anything in this theory that perhaps our stance in international politics has hurt us when it comes to international economics, especially with regard to the United States?

Professor Lyon: I very much doubt it, Senator Connolly. I entirely agree with you, however, and in fact I would go even further than you, in saying that over most of the

post-war period Canada has not only got, but earned, a reputation for being an exceptionally supportive member of the United Nations and the Commonwealth, and a very good world citizen. Your concern is that because we have that image of being a nice guy, that our partners, and especially the Americans, are inclined to take advantage of us.

Senator Connolly: Well perhaps not only a nice guy, but even a big guy, perhaps, in that field.

Professor Lyon: I just do not see it in the Canadian-American relationship, because, with the exception of August, 1971, we have done remarkably well in our dealings with the Americans, even on economic issues, and in getting arrangements like the auto pact, which were not easy for them, especially in the light of their relationships with other countries. The record suggests that we have done pretty well in negotiating special arrangements and exemptions with the Americans; if they were inclined to think that, because we were being nice on political issues in the United Nations, we were a push-over, they certainly have not taken advantage of it, with the one possible exception of August, 1971. I disliked intensely the tone of much of what Connolly was saying, but in retrospect I am not convinced that it was because the Americans thought we were soft that they refused to give us the exemption. I think Connolly, and a good many of his associates, were very resentful of what they thought was a free ride that Canada had been getting. They thought they had been giving us too many breaks and that we were not reciprocating. They were just not going to give us any further special breaks. If anything, they made conditions a little bit tougher with respect to Canada than with some of the other countries. But I simply do not relate that to the image they might have had of us as being a good performer on political issues in the United Nations.

Senator Connolly: On that occasion he said, "We are going to treat you the same as anybody else." He was not going to make an exception. When it comes to international diplomatic activity I think we want to be treated the same as everybody else. When it comes to economics, we do not, and in that particular case we did not want to be.

Professor Lyon: We did have a pretty good argument that we were not guilty of the behaviour of other trading partners that had contributed to the American difficulties. But to the extent that we thought we could get the usual special sort of exemption because we were nice guys with a special sort of relationship—I am not sorry that we failed. It was salutary that the principle was beginning to be enunciated that Canada was now sufficiently strong that the relationship could be more reciprocal.

Senator Connolly: Thank you very much. You talked just a moment ago about members of this committee perhaps being not willing to express nationalism in strong or extreme terms. As you have said, there is a growing nationalism in this country and it comes out sometimes more strongly than at others. Perhaps the de Gaulle incident was a good example of where it seemed to be almost unanimous that this affair had gone too far and that a stand had to be taken. This was not an Anglophone stand by any means, because you will remember the speech, for example, which Mayor Drapeau made.

Professor Lyon: Indeed, I do.

Senator Connolly: We were strongly together on that occasion. What I want to ask you is this: Among the

politicians there is, on frequent occasions, a strong expression of nationalism which gets modified by quieter, perhaps more far-sighted people. Perhaps they are not as idealistic, but they may be a little more practical. What I am concerned about at the moment is what the attitude generally is on this in academic circles in Canada. What is the attitude in the universities, in the colleges and perhaps at lower levels? Is nationalism being taught—nationalism in the sense that we have been discussing it here today? Is it being pushed as a strong element in Canadian life?

Professor Lyon: I cannot answer that on the basis of any systematic survey. I would judge from the attitudes of many of my undergraduates coming from the high schools that a pretty substantial proportion of the teachers, especially of Canadian history, have, by my standards, gone overboard with anti-Americanism. By the time students get to a graduate program most of those whom I see are extremely reasonable. I think there is a tendency, however, to select courses with professors one thinks has views which correspond with yours. Professor Clarkson of the University of Toronto, for example, has told me that almost all the students in his course on Canadian-American relations are strong nationalists. Relatively few of mine are. For the most part they seem much more reasonable than those who's attitudes are reflected by the slogans in the tunnels out at Carleton!

Senator Connolly: This is not a joke.

Professor Lyon: As far as I and my colleagues are concerned, we represent, I think, a fair spectrum of opinion.

Senator Connolly: You mentioned your colleague at the University of Toronto. I say this is not a joke, because I would think that it is probably stronger in Toronto than perhaps it is in any other part of the country.

Professor Lyon: In general, I think that is true, but it may not be stronger at the University of Toronto or at the University of York. Some of the most militant nationalists among the students we have had, curiously, come from Alberta. It may be that they are reacting against the attitude of their parents. I do not know.

Senator Cameron: Maybe they are mavericks.

Senator Connolly: Talking about strong nationalism, I think we are talking about the kind of nationalism which is tinged with the anti-Americanism to which you have referred. Is that so?

Professor Lyon: Quite true. I claim to be, and I would claim on your behalf, to be as good a nationalist as any in this crowd, but it is a special variety we are concerned with.

Senator Connolly: It is the special tinge of nationalism which exists because we live so close to the Americans which gives thinking people grave concern. I contrast this, for example, with the teaching attitude that was obtained when I was a youngster going to school, and a little later when you were one, but there was a good deal of talk in those days in the history classes particularly, of course, about the British connection. I do not find that that is a factor any more and I wonder whether in academic circles there is much time or much thought given to that or much teaching done on it.

Professor Lyon: To the British connection?

Senator Connolly: Yes.

Professor Lyon: I doubt it, except in history courses. In our typical introductory course in political science, there will be some attention given to British institutions for the obvious reason that they are the model for so many aspects of our own.

Senator Connolly: What about the economic connection?

Professor Lyon: I would think very little attention is now paid to the economic connection.

Senator Connolly: Maybe it is the kind of reflection which we have had in this committee on this study here.

The Chairman: There may be an interconnection between the two, Senator Connolly.

Professor Lyon: I think Senator Connolly is hinting at something which I am not sure I could go along with. I do not think the universities should be basing their curricula on the notion that we are attached, for sentimental or traditional reasons, to the British. If Britain plays a lesser part now in courses on economics it is obviously because, economically, Britain is less important now.

Senator Connolly: I am not suggesting anything. I am just wondering what the attitude is.

Professor Lyon: Frankly, I just do not hear a great deal of discussion now about Commonwealth issues, except when we are dealing with problems of development, there, I am happy to see the degree to which Canada's commonwealth relations are still important in our, on the whole, very fine aid program.

The Chairman: Thank you, Senator Connolly. Senator Macnaughton.

Senator Macnaughton: I have rather a number of rambling ideas, professor. First of all, Mr. Chairman, may I suggest that copies of the Porter speech be obtained and circulated? We have all seen the press synopsis. In fact, we used it in Washington a week ago.

The Chairman: Would you at the same time, Senator Macnaughton, like a copy of Mr. MacEachen's Winnipeg speech? I obtained a copy for myself.

Senator Connolly: If it is available, let us have it, by all means.

The Chairman: I think we might get both the MacEachen speech and the Porter speech.

Hon. Senators: Agreed.

Senator Macnaughton: If I may just make some general comments, Mr. Chairman, the second point I would make is that Mr. Drapeau's speech—as I happen to know, because he told me—was not just made off the cuff. He spent at least two and half days of careful preparation prior to delivery. It was not just off the cuff; it was a carefully thought out documentation, and I think a most important one because, to my way of thinking, living in Montreal, it really gives the essence of our French Canadian attitude as of that time. It was a magnificent thing. It took great courage, I thought, and it held a lot of foresight and was certainly effective.

Just on the basis on nationalism, it seems to me that the University of Montreal has been the home of that. Not so much today, but in the few previous years we have had direct teaching there. We have had pretty good proof of

that. We have also had evidence of the external manifestations of that teaching recently. It seems to be on the decline at the moment. Whether that is good or bad is unimportant at the moment. What do you mean, professor, by "insecure academics"? It is an interesting term.

Professor Lyon: Do not take that too seriously! But I think that at least some of the academics, along with some of the publishers who are strongly nationalistic, recognize a certain threat to their position and their chance to shine, but it would be cheap to suggest that that is their main motivation.

Senator Macnaughton: That is the way I took it. It is just a term applied to people who are touting their own ideas to the maximum ear level. I suppose you could put it that way.

Professor Lyon: To the extent that Canadian academics have evidence of discrimination against them—that you have an easier chance of getting a job if you are an American—then I sympathize with them. I see very little evidence of that, however, and in fact the universities and I know best would be in a very much weaker position now if, in a period of rapid growth, we had not been able to draw on American universities and on a good number of American citizens. Some of these Americans now are emerging as notable additions to Canadian society—good Canadians.

Senator Macnaughton: Would you say it was a useful interjection, but not to be pushed much further?

Professor Lyon: It has already been pushed a little too far. I think it has been easing up, but notice that the Ontario legislature's report is calling for more rigorous action.

Senator Macnaughton: Talking about our links with the U.S.A.—our trade associations, corporate links, trade unions and communications links, not to mention our travel links—what effect do you think these many interconnecting links have on the government when it comes to policy? It is rather an obvious question but I would like to get your reaction.

Professor Lyon: It is a very big question, and I am not quite sure how to tackle it. I think one constraint, whether the government or top leadership realizes it or not, is that even if they were to try to reduce greatly the amount of interaction across the border, I do not think that they could achieve it. I notice that Mr. Trudeau, a few weeks ago in Montreal, was expressing great modesty about the ability of government to determine the conditions within a society, and this is one of the points that he might have in mind. Even the very Canadian nationalists, who will cheer a rousing anti-American speech, in their own behaviour fraternize so easily and constructively with Americans in their private organizations, churches, and so on, that I do not think the government could stop that interaction even if it wanted to. Mr. MacEachen said that we regarded the Americans as our best friends "by choice" and not just by necessity, but I think that even if it were not by choice, we would have to say that the relationship is so extensive, and so easy, that the bulk of it is really beyond the government's control.

Senator Macnaughton: But the government must definitely take these factors into very careful consideration.

Professor Lyon: I think it does.

Senator Macnaughton: Well then, how would you react to the Foreign Investment Review Agency?

Professor Lyon: I think it was probably time we had that. I am a little uneasy about how it might subsequently be used, but on the assumption—and I may be wrong in this—that our need for foreign investment is not now as critical, I think it was a sensible concession to the concern in Canada that a lot of incoming investment was not really adding to our productivity, that it was really a matter of buying industries with money borrowed from Canadian banks. There appears to have been enough foreign capital in Canada. Too many Canadians had come to accept that for the government just to ignore the concern. So far as I have seen, the legislation has been implemented with discretion and sense.

Senator Macnaughton: I do not agree with that viewpoint at all, especially when you consider the future development of the country and the tremendous need for capital. I think we do not even have 10 per cent of what we need in this country for oil and gas development and things like that, and I think it is just a popular notion that we do not need foreign capital. Foreign capital is not destructive if it is properly controlled and funnelled in the right directions and, even great as the country is and great as our capital pool is, I think for the future to put these limitations and constraints is wrong in principle and will prove to be wrong in fact. However, that is just my personal opinion. I think it is a concession to nationalist feeling which is unjustified.

Senator Connolly: Perhaps you are justified in what you say by the very recent experience of the oil sands. The money just was not there in the private sector and it was governments that had to do it to rescue the project.

Professor Lyon: Was the absence of foreign capital a direct consequence of the screening legislation? Perhaps the screening legislation indicated an attitude in Canada that would make foreign investors nervous, but I would think that such a massive amount of new capital was needed for the tar sands that the government would have had to consider participation even if there had not been that legislation.

Senator Connolly: That may not be a valid point. As I understand the situation, the tar sands originally involved three or four private organizations or pools, and one of the elements in the pool, I think it was Amoco that withdrew because they were too thinly spread in other projects, like Alaska and elsewhere, and there was no private capital in Canada sufficiently large to step in, and so government stepped in—the federal government and the two provincial governments now involved had to step in, which perhaps, at least superficially, makes the statement of Senator Macnaughton a valid statement, that there still is not enough private capital in Canada to do the big things we have to do. Excuse me for interfering, but it is a practical recent experience we had that we should not forget.

The Chairman: If I might be allowed to interject here, I would suggest that the problem with the tar sands was not a problem of availability of capital; it was a problem of the attractiveness of the investment, because I think the tar sands were a very risky long-term investment. I would not want any of my money in it, for instance, and I have studied it rather carefully. As an investment in Canada's future, I do not object to that as a taxpayer, but as a private investor it would not be something that you would

have ever persuaded the board of directors of the CDC to go into.

Senator Macnaughton: Well, I would also like to advance the argument that it may be necessary for national security to go ahead with that, whether it is right or wrong or whether it is private or public. I know of many cases in the electrical industry and the pharmaceutical industry, and many other industries, where the importation of foreign capital—which is a real investment, in that it is not in for ten years and then out for five, taking all the cream—is a real basic capital investment bringing technology and research and building up the country and expanding our foreign trade. To look upon that as taking over the country is ridiculous because as long as we have the power here to legislate and to attack or to expropriate, then we have the basic power. Therefore, when we are getting so nationalistic that we say to these foreigners—and I don't mind the screening—"Keep out because we are going to keep this purely Canadian!" I think it is a wrong attitude.

Professor Lyon: I am totally with you in your last observation, senator. It seemed to me that those Canadians who worry about the constraints on our autonomy because of the amount of foreign capital in Canada have been looking at the wrong problem. If policy-making here has been constrained, then, in my judgment, it has not arisen out of the amount of foreign investment in the country. It has been because of our exceptional dependence on trade, and largely upon one market. As far as investment is concerned, I have never felt that that was a threat to our overall independence and autonomy. I was giving, obviously, a very superficial quick judgment when I said I thought there was enough capital here, but clearly you have a good deal more knowledge and experience there than I have. I would be unhappy if the foreign investment that you deem vital to Canada were being seriously inhibited by the screening. But it is my impression, from the first reports of the implementation of that legislation, that most of the applications have been accepted. So I hope it will not inhibit the necessary foreign capital coming in, whether it be American, German or Japanese. It seemed to be essential to reassure those Canadians, and it is the majority of Canadians who, through the Gallup polls, are showing great concern about foreign investment coming in. I do not share that concern but I think it is essential to pay attention to it. At worst, it seems to be a fairly harmless bit of legislation.

Senator Macnaughton: I would not agree about the legislation being harmless. I would think it is the best, as of the moment.

Professor Lyon: I mean, on the big issue—

Senator Macnaughton: My concern is this. Is the other side of this question being advocated in the universities or at university level? You know that the press can very easily form general opinion amongst the Canadian population, shall we say against foreign investment, when in fact let us present the problems to the students and let the students, who are the subsequent leaders, make up their minds.

Professor Lyon: I would think, indeed I hope, that all points of view are being expressed in the university. That is one of the points in having a university. My hunch is that most of the economists, both in the university and outside, are still rather cautious about things like the

screening of investment, and positive towards the presence in Canada of a good deal of foreign investment. I do not think the view that you most often hear attributed to professors about American influence and American control, I doubt if that is typical of what students of economics in Canadian universities are hearing.

Senator Macnaughton: I am glad to hear it. How do you react to a continental integration of natural resources?

Professor Lyon: Given the feelings that the very notion of continental integration now arouses, it would be rather foolish to raise even sensible arrangements in that terminology. Having said that, it seems to me that we have many aspects of a continental energy and resource policy now, and there may be further additions and modifications to it that would make sense. I am open to persuasion that we could have even more detailed and significant arrangements with the Americans for the sensible and joint use of our resources without worrying about Canada losing everything. But I repeat that we have to be careful about terminology. It may be that I am overly sensitive to the slogans on the walls out at Carleton University about continentalism being "treason". I was delighted to notice that one of your witnesses, Michel Dupuy, was able to defend a new arrangement with the Americans on the grounds that it was "continental," and he was not lynched for having said it! I may be overstating my concern about how arrangements are described.

The real answer to your question is that I am very open to persuasion that there could be further worthwhile arrangements with the Americans in this field that could technically be described as "integration".

Senator Macnaughton: We have continental defence. How far do you think we should go on continental integration in economics or business or politics or foreign policy? I am coming to you as a source, because you are a university spokesman, let me put it that way.

Professor Lyon: Heaven forbid! I certainly am not a spokesman for any important element in a Canadian university or elsewhere! As I study international integration, continental or otherwise, I am increasingly persuaded that the notion that everything has to go together, that if you are integrating in one dimension you are forced to integrate in every other, is not supported by the facts. It is quite possible for us to decide on good common sense grounds that it is in the Canadian interest to engage in further economic integration, and at the same time to differentiate more sharply our external activities in the United Nations and elsewhere, or take measures to break our educational system away from the American mould. It just does not follow that because we decide there are good reasons for further integration in some respects, that we are bound to integrate across the board. As far as continental defence is concerned, hasn't that become a relatively secondary issue? I note that we are probably going to renew NORAD, and I can imagine changes in the external environment that would make defence a big issue again. But, as of now, I do not think that continental defence is more than a secondary issue.

Senator Macnaughton: In peace-time you can say that but it could change overnight, could it not?

Professor Lyon: It could change, yes.

Senator Macnaughton: And therefore it affects our long-range attitude?

Professor Lyon: It could change, and I would be very unhappy if I thought that all our trans-border links in the defence field were being broken just because there did not seem to be any immediate need for them. I am quite happy that the Permanent Joint Board for Defence, for example, is being maintained, and that there is still a good deal of collaboration in this field.

Senator Macnaughton: I was thinking this, we might have to pay a price for that defence.

Professor Lyon: What have you in mind?

Senator Macnaughton: Either pay for it ourselves, for our own defence system, or else rely on the United States?

Professor Lyon: I am not quite sure what you are getting at. I agree if what you are saying is that if we were to break NORAD, and decided that we needed to do by ourselves things done previously by NORAD, it probably would cost us more money.

Senator Macnaughton: What I am thinking of is this, as the Americans have an international role, a world role, whereas perhaps we do not—I am speaking of defence—coming down to the North American situation, again they have a North American role and I suppose, to a lesser extent, so do we, but we are lucky defencewise in having the U.S.A. to the south of us. Would you go that far?

Professor Lyon: I could go right back to the 1920s and say that Canada is in a uniquely fortunate geographic position, and that if we wanted to take a free ride we could probably get away with it better than most other peoples, because we are a neighbour of the United States, a very powerful nation, we could assume that no one is going to attack us without taking on the United States, and that, in their own interests, the Americans would have to defend us. I do not accept this position. Indeed I argue strongly against it, but there is some substance to it. I think you and I agree that if Canada decided totally to opt out of continental defence, there would either be a void in our air space—we would not know what was going on—we would have to police it entirely on our own, at greater expense.

Senator Macnaughton: That is my point. I have one simple question. What is your reaction to the book *Ultimatum*?

Professor Lyon: I thought it was a very poor book. I was unhappy that I had been more or less coerced by reviews to feel that I had to read it, but I did not find it credible, or even a well written book.

Senator Macnaughton: How do your students react to it?

Professor Lyon: I have not heard any comments from my students.

Senator Macnaughton: I have many more questions, but there are other senators here.

The Chairman: Thank you, Senator Macnaughton. If there are no other questions from senators at the moment, I have one or two myself on which I would like to have your views, professor. One of the items I have here is one on which Senator Macnaughton has already touched and you have gone into at some length. I have written down an item "super nationalists." Does their overall approach not inhibit us in making intelligent item-by-item decisions? What I mean by that is that there are many areas where

the size of the American states, the population of the United States, creates problems in Canada that very possibly do require special legislation.

Let me use the example of recreational land, for instance. Even the Americans have this problem in Hawaii, where the land is all being bought up by the Japanese, so they are starting to complain. A small area, or an underpopulated area, therefore, can have pressures come on it from a heavily populated area in a field such as that, so that you have to take special steps and pass special legislation to protect yourself. It seems to me, however, that one of the dangers in Canada is with the supernationalist approach in terms of what they say that because we have special problems of that nature, which must be dealt with, we must have no more truck or trade with the Yankees. Then you get decisions being made against co-operating with the Americans on a pipe line program, for instance, or against co-operating with them on something else that might be much more in our interest than theirs.

I wondered if you had detected that this a problem, and consider that we defeat our own best interests by following the supernationalists too much in a broad anti-American approach, whereas if we went at things item by item we could say, "Here is one that is a problem, and here is one that is not a problem, and we should deal with each on its merits."

This is in the area of continentalism, that you get into. It is a nasty word, perhaps, but perhaps if you should have continentalism in recreational land, then you should have it in pipe lines also, and to our advantage.

Professor Lyon: I am with you totally, senator. It seems to me that we have proper cause for concern about some aspects of continentalism. I would be shocked if there was any weakening of support, for example, for the Canadian Broadcasting Corporation. I am not quite happy about some of the possible consequences of the recent action concerning *Time* and *Readers' Digest*, but I really do recognize a problem there that called for action, and Americans should be able to respect it and understand. There are quite a few things that the nationalists are asking for that we should be doing to strengthen our institutions and our ability, in the long run, to maintain our identity and autonomy. However, I quite agree with you that, although a common-sense case can be made for some such actions, it is really stupid to conclude that we should break most of our links with the Americans, or refuse to enter into any new arrangements with them. It is precisely for that reason that I was at some pains to challenge the Canadian nightmare, that there is some sort of a threshold, that we cannot quite specify but believe must be close, and that if we interact any more with the Americans we will suddenly be on a slippery slope from which there is no recovery—that we are going to be totally gobbled up by the United States. From my reading of history, and recent events in Canadian-American relations, I just do not believe this, and it really does inhibit sensible Canadian thinking about what we want to do. If we encourage Canadians to look at other disparate dyads, they would be better able to resist the sort of panic inspired by the "supernationalists", as you call them, which makes them feel that, if it isn't treason, at least it is folly to think of doing anything further in a co-operative way with the Americans.

I quite agree, sir.

The Chairman: Another item I had—I have two or three here—is this. Am I wrong in thinking that even at the level

of government in Canada, and certainly among the population generally, we tend to apply a double standard in Canadian-American relations? In other words, it is fine for a Canadian politician to go down to the United States and give a speech criticizing American policies, but it is absolutely unacceptable and intolerable for an American to come up here and give such a speech. In other words, we apply a double standard to our relations with the United States.

Professor Lyon: I think most Canadians do that. A number of Canadian statements made in recent years, even on American soil, fall into this category. I think, for example, of the speech made by Senator Greene, as he is now, in Denver some time ago, when he seemed almost to be welcoming the fact that the "American dream" was dead. I think that was going beyond what could be expected of American tolerance for Canadian statements.

The Chairman: And beyond good taste, generally.

Professor Lyon: Well beyond it. One of my gripes about Canadian newspapers is their extreme sensitivity to any American in Canada offering an opinion that seems to have any bearing on anything we happen to be doing. I am sure we expect to be treated differently to the way we treat Americans. There are very few Canadians who feel diffident about offering the Americans advice on a whole range of issues, but they will not accept advice from them.

I am hoping, as part of the desirable change in the special relationship, that it will become possible to eliminate the notion that, because we are so much weaker, we need an unreciprocal relationship, and that this even needs to be carried over into the field of rhetoric. I hope there will be more, for example, of the kind of frank speech that Ambassador Porter gave in Winnipeg, and that we will learn to welcome it.

The Chairman: Yes, and yet, in fairness to Canadians, there was no adverse reaction to the Porter speech, that I read.

Professor Lyon: There was not much adverse reaction to it, but I think of the still lingering resentment of the retiring commander of NATO coming here, who, after all, was as much a Canadian servant at that time as an American servant, and who, after a good deal of pressing from reporters, was compelled in honesty to say that Canada was dragging its feet and causing certain difficulties. That was immediately regarded as an intolerable intervention in our affairs.

Senator Connolly: Was that Norstad, way back?

Professor Lyon: Yes.

The Chairman: However, that was, at that moment, a peculiarly political item in Canada, in an election context of a minority government.

I have a third question now, and then I will go back to senators if they have supplementary questions.

I am wondering if some of us are correct in our assessment that the irritants and abrasions in Canadian relationships with the United States have escalated in the last couple of years. In other words, I am wondering if relationships are not as automatic and easy today as they used to be. That is my assessment. Can you, on balance, say that this is more our fault or their fault? I know it is a difficult question but, on balance, could you make a judgment?

Professor Lyon: It is a very impressionistic answer that I will give, senator, but I think probably it is more our fault. One thing I hope that this committee will do is probe what is going on below the top level. I do not know how you would go about it.

I am very much on the margin of things. Occasionally however, former students reveal something about the mood within the bureaucracy. It seems that there are important changes in attitudes and style in the conduct of our relations that have not been flushed out in your hearings, but I am not sure how you could set about getting that sort of information.

The Chairman: It is something we are groping for, and it is something that I think is most important.

Any more questions?

Senator Macnaughton: I would like to ask our witness if he could suggest some very radical names that he thinks might be useful to hear, and even beneficial to this committee to listen to.

Professor Lyon: Well, although I do not agree with them, I think they are saying something important. You should hear from George Grant, for example, and Abraham Rotstein of the University of Toronto. You should perhaps hear from Kari Levitt of McGill University, and from Walter Gordon.

Senator Macnaughton: On economies, I take it.

The Chairman: We might even ask Senator Davey over.

Senator Macnaughton: What about the "far-out" west?

The Chairman: We do not have so many problems out there, Senator MacNaughton.

Professor Lyon: Well, perhaps Mel Hurtig is a voice you should hear. I think he is a very effective spokesman for a position that I do not buy, but that would be a good suggestion, sir.

The Chairman: I think, Senator Macnaughton, that these are certainly people we should hear. I appreciate your question, because names such as George Grant are not familiar to me; but certainly it was my view that we would be calling Mel Hurtig and Walter Gordon, and people of that sort, in due course—people that I do know—and certainly it is most useful to have these few names from academia in the same area. I think we will have to make a judgment as a committee on whether or not they are more helpful to us at this stage of our inquiry, or whether it would be more useful to hear them on the trade aspect, though some will undoubtedly fall into both categories.

Professor Lyon: In one sense there is not much need to have these people. Their views are well known.

The point I was trying to get at particularly has regard to your present study on the way the relationship is managed the institutions, style, and so on. It would be useful if you could get someone here—though I am not sure it is even possible, and I cannot give you any names—who is in a better position than I am, or even the top people, to describe what is going on at the desk level, to find out what is the mood within the civil service generally. I suspect, on the basis of some random evidence, that there has been a fairly decisive change there. It is not a change, on the whole, that I welcome.

Senator Macnaughton: Well, yes, that was the idea. I thought, rather than read abbreviated newspaper reports, it would be much more beneficial to have it from the person himself in the chair so that we could listen to him and get it directly.

The Chairman: Senator Macnaughton, one of our problems is that although we have had civil servants or immediate past civil servants before the committee, it would probably be difficult to get the sort of frank evidence we would require from people presently working for the civil service and holding down positions there. That is one of our problems.

Senator Macnaughton: I was thinking of the universities. I am assuming that the university is the revolutionary section of the community, as it should be, bringing forth new ideas and new approaches; and, right or wrong, let us have them.

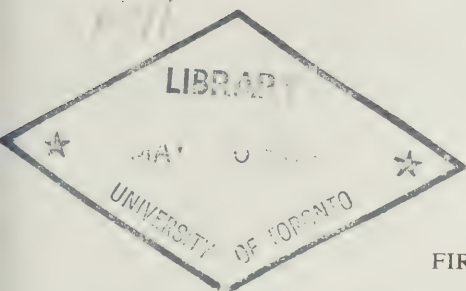
The Chairman: We will certainly give some thought to it within the committee.

Professor Lyon, I would like to thank you very much for coming here this morning. I would express the view, if I am not anticipating my confreres on the committee, that we may well want you back when we get into the subject of trade. Thank you.

The committee adjourned.

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FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 10

TUESDAY, MARCH 18, 1975

Ninth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, March 18, 1975

(13)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2.35 p.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Bélisle, Cameron, Carter, Grosart, Lafond, Macnaughton, McNamara, Rowe and Yuzyk. (10)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witnesses:

Professor George Francis, University of Waterloo, Waterloo, Ontario; and Professor Leonard B. Dworsky, Cornell University, Ithaca, New York State.

At the conclusion of his opening statement Professor Dworsky submitted the following additional information:

“Attachment to Memorandum—Research Agenda”.

Agreed,—That the above-mentioned additional information be taken as read, and that it be included in the printed Proceedings at the conclusion of Professor Dworsky's opening remarks.

At 4.43 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 18, 1975

The Standing Senate Committee on Foreign Affairs met this day at 2.30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I should like to welcome, before the committee this afternoon, Professor Leonard Dworsky and Professor George Francis. They are, as I understand it, the joint chairmen of a group of some 30 Canadian and American academics and government people involved in a study of the Great Lakes. As I recall from something I read recently, by the end of this century one-third of the population of Canada and approximately one-quarter of the population of the United States will live in the Great Lakes areas. This is, therefore, a most important study that these gentlemen have under their direction. They have already appeared before a congressional committee in Washington studying the subject of the Great Lakes.

Professor Dworsky is a member of the faculty of Civil and Environmental Engineering and was Director at Cornell University of the Water Resources and Marine Science Center from 1964 to 1974. He is by training an engineer, a public administrator and a conservationist. He previously worked with the United States Federal Public Health Service, where he was concerned with water supply and pollution control programs. At one time he served as regional pollution control officer in the Missouri and Columbia River basins. During 1967-68 he was the water resources staff assistant to President Johnson's Science Advisor. He is currently also a consultant to the Rockefeller Foundation on environmental matters, and a member of numerous other environmental associations.

Professor Francis is a professor and chairman of the Department of Man- Environment Studies at the University of Waterloo. He has been trained in biology, economics and political science, and conservation and resource planning. He has previously worked for the United Nations Development Programme and has since been a consultant to the U. N. and OECD.

Before calling on our witnesses today to make their opening statements, I would like to remind members of the committee that Mr. Jean-Luc Pepin, former Minister of Industry, Trade and Commerce, will be our witness on Tuesday of next week.

I might also mention that I received in the mail this morning a letter from the Secretary of State for External Affairs, Mr. MacEachen, inviting members of this committee to a tour of the new Lester B. Pearson Building, and lunch with the Secretary of State for External Affairs, next Wednesday, March 26. There will be a bus leaving here at 11.15 a.m., I believe, but I will be sending you a copy of his invitation so that you will have the details.

Senator Bélisle: Unfortunately, about two and a half months ago I made a commitment for next Wednesday, so I will be unable to accept that invitation of the minister. However, I would love some day to make that visit, if there is going to be a repetition of it.

The Chairman: I am sure that arrangements can be made for you anyway, without difficulty. It might be a little more difficult to arrange the lunch!

Senator Bélisle: During that week there may not be a full attendance of the committee, and perhaps another opportunity could be arranged for those who have not taken advantage of it.

The Chairman: What I will do is ask Mr. Innes to keep a careful record of who will be able to attend on Wednesday, after the invitation has been circulated. Certainly for those who cannot attend we may be able to make some other arrangements for another day.

Senator Bélisle: Thank you.

The Chairman: If it is agreeable to our two guests, I will ask Professor Francis, as the Canadian member of this team, to begin with an opening statement, following which Professor Dworsky has agreed to speak. We will then proceed with our usual questioning.

Professor George Francis, Chairman, Department of Man-Environment Studies, University of Waterloo: Mr. Chairman, honourable senators, it is indeed a pleasure for us to meet with you this afternoon to participate in your deliberations concerning the institutional arrangements for Canadian relations with the United States. We wish to use this opportunity to share with you some ideas and suggestions concerning institutional improvements which we feel should be considered for the Great Lakes Basin. People with knowledgeable interests in the Great Lakes are increasingly concerned about what may lay ahead of us there, and we think it fair to say that a growing number of such people see the need for Canada and the United States to find ways to cooperate more closely in the joint planning and management of water and associated land resources in the Great Lakes Basin.

Three years ago Leonard Dworsky and I arranged a Canada-United States university seminar which looked into some institutional questions concerning the Great Lakes. I believe, Mr. Chairman, that members of your committee have copies of a report which came from this series of meetings, called "A Proposal for Improving the Management of the Great Lakes of the United States and Canada." The meetings which constituted that seminar drew invited participants from some 20 universities and colleges in Canada and the United States. About 30 people, roughly one-half from each country, came from academic institutions and an equal number of participants came from federal, state, provincial and local agencies of

government from both countries. You may already have looked over this report, and in any event I will not go into it in detail.

The set of working papers, which were the initial basis for this joint seminar, were prepared by graduate students at Cornell University, who, under Professor Dworsky's direction, examined the water management problems of the Lake Ontario basin. The seminar then added and revised materials as part of the process of preparing the report, and it arrived at a set of recommendations which we thought could be generalized, at least for the lower Great Lakes if not all of them.

There were two main sets of assumptions underlying the seminar and the recommendations which arise from it. One is that we are really dealing with an interrelated set of resource management problems around the lakes which have increasingly to be analyzed and understood as such. It is the various land-based activities in both countries which are generating most of the problems showing up in the waters. To us, this means that the perspective, which has so far been restricted mainly to the waters of the lakes, has to be broadened to include associated land resources. Moreover, given the rates of population growth, urbanization and industrialization on both sides of the Great Lakes Basin, more intensive demands will be placed on these resources, which in turn could generate more pervasive and diffused transboundary effects, as well as an increasing number of conflicting demands among resource uses and users.

At this point I might call your attention to Table 1 from page 42 of the report, which summarizes the array of resource management considerations which in our view should come within the purview of some binational body. The manner and extent to which this is done and how concerns should be manifested is, of course, a key question. The seminar participants discussed this at length. There are at least three levels of attention which may be considered, and these are also noted in the Table. At the level of surveillance, which could give a wider measure of common awareness to what is going on, it may only be a matter of gathering certain information and data systematically on a regular and agreed upon basis. However, for some situations it may be desirable to have a mediation function served by open informal discussion to resolve differences of perception or interpretation of problems and to try and agree on joint approaches to their solutions. And finally, there may be a need to exercise co-ordinated control functions through the appropriate regulatory authorities in both countries. To some extent all three functions are already being performed on a binational basis, but this is largely *ad hoc*, and we should look now to extending and co-ordinating such functions within a wider and shared perspective.

This brings us to the second main set of assumptions, which are that any steps towards institutional modifications must use to the fullest the existing institutional structures and build on the expertise and the experience they have. In the Great Lakes Basin there is an impressive array of institutions and organizations at work, each with different functions and activities. This is particularly so if one adopts the broader land and water perspective which we think is necessary. The international boundary complicates this situation, of course, because in effect the two respective federalisms meet in the middle of the lakes so to speak. One result is that a rather heavy responsibility gets placed on the IJC for bridging the two. We are aware

that Professor Cohen has already briefed you on the IJC's roles and responsibilities, and we only wish to note here that we believe the IJC has done a very commendable job over the years on the tasks assigned to it.

Our main concern about institutional arrangements relates to the assumptions about the interrelated nature and growing complexity of the land and water management problems. There is as yet no formal provision for maintaining some measure of a continuous watch over the whole Great Lakes Basin for the expressed purpose of anticipating problems before they reach crisis proportions, exchanging experience among various jurisdictions and groups for coping with them and mobilizing efforts for preventive measures which would at least strive to lessen their impacts. We believe there is a need for a binational organizational structure which would work towards this and which would have certain policy, planning and management functions assigned to it. The way these three functions are defined and developed is crucial, and this of necessity has to be determined through bilateral negotiation between the two federal governments.

The seminar participants generally thought that an appropriate organizational structure would require two complementary components. One would be a joint basin-wide policy and planning body which is politically responsive primarily through federal, provincial, state and citizen group representations. The other would be a network of regional or Lake basin management agencies responsible for implementing the appropriate surveillance and mediation tasks within the overall policy guidelines established by the basin-wide policy body and which would be closely linked with provincial, state and local government agencies.

In meshing this idea with the existing institutional system you will note in the concluding section of the seminar report, on page 49, on "Alternative Institutional Arrangements" that two quite similar alternatives were discussed. The main question seemed to be whether the IJC should be asked to shoulder additional functions and responsibilities or, bearing in mind that the IJC has responsibilities along the whole Canada-United States boundary, whether a new bi-national body should be considered exclusively for the Great Lakes. In either case, the Institutional structure envisaged would provide for:

- Establishing a joint Canada-United States management body for the Great Lakes having surveillance and mediation functions;
- Joint agency budget and administrative procedures;
- Initiatory authority for such matters as planning, surveys, investigations and research under carefully specified guidelines established by the two countries;
- Program responsiveness by requiring that the activities of the joint management body be subject to program and budget authorization and review on, for example, a bi-annual basis;
- Stressing intensive regional and transborder collaboration among state/provincial and local governments;
- Developing a more comprehensive and systematic approach to the management of the Great Lakes;
- Joint information collection and analysis; and
- Public reporting.

The alternatives recommended do not provide for:

- Changing the equality status of the two countries in matters concerning Great Lakes management;
- Establishing a supranational decision-making authority;
- Changing the basic authority of existing national, provincial, or state responsibilities; nor
- Displacing existing agencies.

It was realized that much still has to be thought through to elaborate these approaches in full, and it would have to be done with a wide measure of careful discussion and debate. But we do believe this to be a reasonable proposal and a basis on which to proceed with any examination of how the two countries may strengthen their institutional capabilities to resolve existing difficulties and be better prepared for future problems in the Great Lakes Basin.

This, Mr. Chairman, is where we arrived in our consultations some two years ago and with your permission I would like to ask my colleague, Len Dworsky to bring you up to date on what has happened since.

The Chairman: Thank you, Mr. Francis. I will now call upon Professor Dworsky, following which the questioning will be opened by Senator Rowe.

Professor L. Dworsky, (Professor, Civil and Environmental Engineering and formerly, Director, Water Resources and Marine Science Center,) Cornell University: Thank you, Mr. Chairman. Honourable senators, I also should like to say that we appreciate greatly the opportunity to visit Ottawa and present our opinions before this committee and we thank you for the opportunity you have given us to do so.

Canada and the United States have entrusted the examination and at times the management of the boundary water problems, including those of the Great Lakes, to the International Joint Commission. During more than sixty years of activity, the Commission has established an impressive record of ameliorating issues referred to it by the two countries. On some issues the Commission's recommendations have not been followed, on others the Commission was not used, and on still others the countries have, until recently, shown no inclination to be involved.

Throughout sixty years of IJC's operation, no systematic study was performed to examine the utility, mode of operation and potential use of the Commission. The complex nature of the management of the Great Lakes and the wide range of problems and spheres of activities in which the Commission is, or ought to be, engaged necessitates a close examination and evaluation of the institutional arrangements and scope of a management body for the Great Lakes, either in a format similar to that of the IJC or different, and evaluation of the problems facing such a body.

I might say that we are very pleased to believe that our study was in fact one of the stimulants to having the IJC call its symposium last June in Montreal and—which, to my knowledge, was the first time that such a meeting had been called to evaluate the programs of the IJC and the opportunities for strengthening it.

The inherent functional interrelationships between the various problem areas, for example, lake levels, industrial and residential land use, hydropower, fish and wildlife protection, water quality, and their impact on the nature and work of a management body underlines, we believe, the need to recognize the importance of these interdepend-

dencies. Further, these emphasize the need to consider a more comprehensive and systematic approach to the management of the Great Lakes.

These matters were considered in some depth during the period 1971-72 by a Canada-United States University Seminar and the findings of the seminar were presented in a report: *A Proposal for Improving the Management of the Great Lakes of the United States and Canada, 1971-1972*. Copies of that document you have before you. The main finding was that 24 faculty members from 16 institutions in Canada and the United States

reviewed and have given their endorsement to this report and its recommendations. They consider the report and its recommendations suitable as a guide to further public discussion and debate in both countries on the matter of improving the management of the Great Lakes Basin.

We did not seek from the members of the working group more specific recommendations. We were aware that we were starting on a long-term operation. We knew that there had to be much more information gathered, that we had to have a much better sense of the problem and we accordingly restricted our first recommendations to several alternatives that were broad and general. The finding simply says that the recommendations are thought suitable as a guide to further discussion and debate in both countries on the matter of improving the management of the Great Lakes Basin. We did not wish at that time to pursue the matter in any more detail.

The recommendations endorsed referred to two alternatives: (a) The first alternative would seek organizational improvements within the framework of a significantly strengthened International Joint Commission; (b) The second alternative would call for a specifically created international body which would supplant the IJC in the Great Lakes Basin.

In May 1973 at the request of Congressman Dante Fascell, Chairman of the Subcommittee on Inter American Affairs, Committee on Foreign Affairs, House of Representatives, U.S. Congress, this report and its recommendations were provided to the subcommittee in hearings on the Great Lakes. At that time, a recommendation for a resolution to be adopted by the Congress and addressed to the President was prepared.

This resolution which I am going to read was submitted to the subcommittee at the end of Professor Francis' and my testimony. While we recognized that it would likely not be acted upon at that time we thought it would be useful as an educational approach to show the direction we thought ought to be followed. The resolution reads:

The Congress of the United States is deeply concerned about the need to strengthen the management of the International Great Lakes in order to conserve, develop, and use that unique resource for the benefit of its citizens. The Congress believes that this concern is shared equally by the Government of Canada. The Congress accordingly, requests the President to initiate new discussions with the Government of Canada with the objectives of: (1) Developing a joint comprehensive examination of the problems associated with the multipurpose management of the Great Lakes and associated lands; and (2) using this examination to determine ways to strengthen significantly the joint multipurpose management of the Great Lakes. Among other opportunities, the alternative proposals formu-

lated by the Canada-United States University Seminar would be used as a basis for initiating such discussions.

That recommendation was presented and it is contained in the hearings of the subcommittee.

A follow-up project carried on by a seminar at Cornell University in 1973-74 involved the establishment of "A Great Lakes Experimental Operations Office" which resulted in the publication of *The Great Lakes of the United States and Canada—A Reader on Management Improvement Strategies* (April 1974).

Since we had suggested that the two governments establish a joint office, we decided not to wait but, rather, to establish an experimental office in our classroom. We then attempted to show that some of the activities we had suggested for a joint office were practical. Through such an experimental operations office, we developed a series of documents which were intended to illustrate to the governments what, for example an information program ought to contain; what a public education program ought to be able to provide to the management of boundary waters; what the problems were at the Niagara Frontier; and problems in regard to the fisheries. We believe these management improvement strategies show that what needs to be done are practical tasks. This book covers our studies and I would present a copy to you, Mr. Chairman. It is entitled *The Great Lakes of the United States and Canada—A Reader on Management Improvement Strategies*.

In June 1974, the International Joint Commission convened a seminar at Montreal, Quebec for the purpose of reviewing the organization and functions of and to consider means for strengthening the IJC. The summary of this seminar stated a series of important questions that represented the main thrust of the discussion that took place at that time.

As a result of the review of the findings of that seminar, a set of ten questions was selected from the proceedings of both the Montreal Seminar and the Canada-United States University Seminar as further topics requiring more study. These ten topics are presented in the form of researchable issues in the attachment to this memorandum. I will ask you, Mr. Chairman, for permission to include in the record these topics and their elucidation.

These ten questions represented the kinds of inquiries that the IJC needed to undertake in more detail. In looking at these points it was clear that they needed to be, in bureaucratic terms, "staffed out". They need to be explored and examined and it is on such activities that we propose to use our research funds. In other words, we are taking research funds available to use and doing what we think the governments ought to be doing. We expect faculty persons around the Great Lakes to assist in studying these questions and developing background papers for use in our continuing inter-university research project. These working documents will be used during the 1975-1976 extension of the Canada-United States University Seminar.

The problems presented here are, we believe, of great importance to the management of the Great Lakes whether in its present or an alternative form as well its future or revised operation, and will carry us further in the implementation phase of the research project, the goal of which is formulating, recommending and establishing improved management institutions for the Great Lakes.

I would like to quickly read the headings of these ten topics to give you some sense of these researchable items. We would like to note three that we think are of immediate importance and suggest that these three might be areas on which you would like to address specific questions to us.

The first is: The Value and Use of the IJC to the Governments of Canada and the United States—The Question of Political Will of the Two Countries. This question was discussed in great detail at the IJC seminar. The question of the political will is, in fact, the major determinant as to what the two countries want to do. Clearly, they have all necessary power if they want to use it. Whether they have the will is the point.

The second topic is: The IJC and its Commissions.

Third, Implementing IJC Recommendations. We ought to know something about what recommendations were made and whether they were followed or abandoned and why.

Fourth, A Monitoring Role for the IJC.

Fifth, the IJC and the Authority to Recommend References. This item, Mr. Chairman, we think, is very important and we would like to discuss this further with you this afternoon.

Sixth, the IJC and the Use of Borrowed Staff.

Seventh, the IJC and the Funding of Reference Studies.

Eighth, the IJC and the Public.

Ninth, the IJC and New Planning and Surveillance Authority. That is another major item, Mr. Chairman, that we would like to discuss.

Finally, number ten, Toward Developing a More Comprehensive and Systematic Approach to the Management of the Great Lakes. We suggest that specifically, this will require, among other matters, (a) program responsiveness by requiring that activities of a postulated joint management body be subject to program and budget authorization and review on, for example, a biannual basis; and (b) joint agency budget and administrative procedures. We think that the administration of the joint office ought to be explored in some detail in order that we would have a better sense of how it would work.

These ten items, Mr. Chairman, go together with four other activities that we intend to pursue, which are, first of all, a program assessment of the Great Lakes Basin Commission. Second, we are also going to assess the planning functions of the Great Lakes Basin Commission. The Commission has recently completed for the U.S. side a large multi-volume study of the Great Lakes that has taken several years. Third, we want to make an assessment of the Great Lakes research strategy. I am a member of IJC Research Advisory Board and we have, under that board, recommended an annual research program. Our group—Professor Francis, myself and our colleagues—would like to look at that research program and see whether or not it comprises an overall strategy and whether it links the various problems together in a coherent manner.

Finally, we do want to look at the Great Lakes Fisheries Commission, because this is the only other international body on the Great Lakes. We are proposing that we consider the integration of this agency with other functions that the IJC may be responsible for.

The Chairman: Thank you, Professor.

Professor Dworsky: With your permission, Mr. Chairman, I should like to have these researchable items introduced into the record.

The Chairman: Yes, I think it would be appropriate if we were to include that in the record right at this point. We will simply take it as read.

[Text of ten researchable items follows]:

Attachment to Memorandum

Research Agenda: Date, March 19, 1975

Professors Leonard B. Dworsky¹ and George Francis

(1) *The Value and Use of the IJC to the Governments of Canada and the United States—The Question of Political Will of the Two Countries*

The general attitude held by the Governments of Canada and of the United States on the multiple purpose management of the Great Lakes Basin is essential for understanding the operation of IJC. It is not clear whether or not the two governments believe that the problems emerging in and around the Great Lakes are inexorably leading to critical situations and that it is imperative to initiate new concerted actions in order to conserve and enhance these unique resources for the present and future generations. There is little doubt that some of the problems concerning the Great Lakes (e.g., pollution) are already critical. Can the two countries afford to wait for other crises to occur as a catalyst for action?

The major question is the willingness of both countries to exercise their political will at least to the extent of strengthening their ability to resolve existing difficulties and to be better prepared for future problems.

The Governments may use the IJC as a tool to ensure that both countries cooperate with regard to their shared environment. While a new treaty may not be needed, the option should not be ruled out. What is needed under any circumstances is more effective use of the political will of the two governments along with a better understanding of the IJC and its greater capabilities and a commitment of greater resources to enable the Commission to carry out its responsibilities.

¹ Assisted by graduate research assistant Amos Avgar, Cornell University

Some considerations regarding this problem, we think, ought to be:

- The continued viability of the Boundary Waters Treaty as written, or the improvements that may be possible with careful change.

- The use that the governments might make of the IJC under the existing treaty.

- To what extent can the Commission be asked to move into new areas with its current capabilities and staff?

- What are the new areas the Commission can move into provided it is granted additional staff?

- To what degree has the Commission's performance been dependent upon the political will of the two governments with regard to questions like: (a) utilization of various sections of the Treaty; (b) restricted interpretation placed on the references presented to the Commission.

(Please refer to pages 4, 6, 18, 26 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential", for additional commentary on this point.)

(2) *The IJC and its Commissioners*

The International Joint Commission is the only existing formal arrangement between the United States and Canada concerning the management of the Great Lakes. The Commission consists of six members, three from each country. The U.S. commissioners are appointed by and serve at the pleasure of the President. The presidential appointment is not subject to Senate confirmation. The Canadian commissioners are appointed by Order in Council of the Canadian Government and serve at the pleasure of the Government.

To a great extent, the IJC is only as good as its commissioners. Therefore, we think an examination of the past commissioners could throw some light on the work of the Commission. Lack of institutional procedures for the Commissioners nomination obstructs this task since there is no existing formal set of criteria or qualification for nomination. Establishing such criteria as a basis for evaluating the commissioners might be considered. As examination of the commissioners biographical background may be useful. Another approach might be establishing a set of criteria for evaluating the competence and activity of the commissioners based upon their contributions and participation to the extent identifiable. Such criteria may serve not only as a basis of evaluation of the commissioners, but also the work of IJC in general. Additional considerations may be:

- Continuity in the work of the Commission at times of personnel turnover.

- The pattern of personnel rotation.

- Inter-commissioner conflicts, e.g., national, political, etc. and their effect on the Commission's work.

Suggestions for organizational changes may also be presented:

- Alternative nomination procedures.

- Optimal duration of the commissioners tour of duty.

A set of interviews with past commissioners about their experience and future suggestions might be a useful method of examining this problem. (Please refer to pages 7, 8 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential", for additional commentary on this point.)

(3) *Implementing IJC Recommendations*

A major responsibility of the IJC which is becoming its major work is to investigate and make recommendations on specific problems referred to it by either or both governments. Neither government is bound by the reports or recommendations of the Commission. The Commission is often hurt when it makes recommendations and no action is forthcoming.

The governments should establish an institutional framework (regularized machinery) within which IJC's recommendations can be dealt with in a more efficient manner and within a shorter period of time. A suggestion at the IJC Seminar proposed that if governments turn down a recommendation, they should show cause as to why they could not accept it.

We believe that several considerations may be of use in looking into the problem of implementing IJC recommendations:

—Should Article IX (of the Treaty) be strengthened to assure great responsiveness by the governments to the Commission's recommendations? What changes would be needed?

—What are the mechanisms within the government that operate to implement IJC's recommendations and what is the time span of their operation?

—What are the differential constraints imposed on the implementation by the different governmental levels (international, federal, state)?

—Can these levels be regarded as distinctive "blocks" with regard to specific recommendations?

What are the major spheres or topics in which recommendations were made?

—Is there a distinction between those recommendations that were implemented and those that were not carried out?

—A study of "abortive" and successful recommendations and the response of the different governmental levels to them might be useful.

—Can institutional "bottlenecks" be identified with regard to hampering implementations? And could differential (governmental and programmatic) bottlenecks be identified with regard to different spheres of activities?

—What are the formal (and informal) channels of communication between the Commission and the governments?

—What are the measures taken by the Commission to pressure the authorities to implement their recommendations? (Please refer to pages 7, 8 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential", for additional commentary on this point.)

(4) *A Monitoring Role for the IJC*

Some of the side effects of various development projects in the Great Lakes have been environmental degradation, natural resource depletion and land use mismanagement.

The rigidities of present institutional arrangements are thought to be blocking progress toward the control of environmental degradation as well as the efficient use of resources in general.

It was suggested at the IJC Seminar that one measure of the responsibilities given to the IJC in the future will be the Commission performance under the Great Lakes Water Quality Agreement (GLWQA). Here the Commission has been asked to help coordinate activities and serve as a *watchdog* over programs in the two countries designed to achieve agreed water quality objectives. Granting the Commission a monitoring, or a *watchdog* role, poses a problem. Could such a role jeopardize the continued effectiveness of the Commission by asking the board members to "spy" on their own countries and thus endanger the integrity of the Commission?

Dealing with this problem, its validity should first be examined, i.e., is the "spy" analogy relevant to the monitoring function? Furthermore, wouldn't a monitoring role help the Commission foresee future problems and thus

should it not be structured accordingly? Further considerations might be:

—Can a monitoring function be accommodated effectively within the existing IJC?

—What are the mechanisms required for the fulfillment of this task and how should they be structured?

—To what extent will this task conflict with the present role and structure of the Commission, and what are the potential points of tension that may emerge?

—What can be learned from GLWQA with regard to the Commission's future monitoring role?

—Has the Commission fulfilled this function in the past; on what issues and to what degree of success?

—What are the necessary additional personnel needed to empower successfully the Commission with monitoring functions? (Please refer to pages 15, 16 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(5) *IJC and the Authority to Recommend References*

The major work of IJC is to investigate and make recommendations on specific problems referred to it by either or both governments. It is under this provision of the Treaty that requests, or "references" by the two governments have been made on such varied subjects as water pollution, lake levels, and land use. (Reference means the document by which a question or matter of difference is referred to the Commission pursuant to Article IX of the Treaty*).

One manifestation of the reactive nature of IJC (as opposed to initiatory), among others, is with regard to the authority to recommend references. One suggestion made at the Canada-United States University Seminar (1971-72) was to seek organizational improvements within the framework of a significantly strengthened International Joint Commission. The key feature in this strengthening is that the IJC would be freed from the present Treaty constraints of acting only when a matter is referred to it by both countries, so that it would assume an active role in the public decision-making process. (This process is already under way in part as a result of the 1972 GLWQA.)

*Rules of Procedure of the International Joint Commission

The modification of the Commission work entails arguments and questions that ought to be evaluated:

—To what extent is the following notion valid: "Unless governments themselves make the references, there would be no political base for governmental support of the IJC's conclusions and recommendations as the result of the reference."

—What are the advantages of giving the Commission several broad standing references, and what should the areas of activity be?

—It was noted at the IJC Seminar that the Commission has used in the past the procedure of pointing out to the two governments potential sources of trouble and dispute and suggested that a reference be made. In what areas were these references and what can be learned from these precedents for expanding the use of this procedure in the future?

—Should the structure of the Commission, the number of commissioners and the present appointment criteria and procedures be altered to fulfill the new task?

—To what extent has the GLWQ's board recommended references and what can be learned from that experience?

—What governmental body should confirm or reject the Commission's recommended references if this authority is extended, and what should the institutional procedures for such examination be? (Please refer to pages 13, 17-19 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(6) *IJC and the Use of Borrowed Staff*

The Commission carries out its varied responsibilities through the employment of permanent and borrowed staff. The borrowed staff is drawn from two sources—governmental and private—and each creates serious problems for the Commission's work.

It is sometimes asserted that the IJC need not maintain a large technical staff to carry out the investigations authorized by reference since it can draw upon the federal agencies of both countries for these purposes. This is a situation not without drawbacks. When the technical work of the Commission is carried out by the agencies of the two governments, the work produced is a product of the priorities, constraints, and program biases of the participating agencies. While the Commission at the onset of an investigation has and exercises authority to mark out the scope and terms of the project, this power tends to dissipate in an irreversible manner once the project is in the hands of the technical agencies. The problems that ought to be examined with regard to this issue are:

—What are the advantages of using such personnel to the two governments in general, and to the Commission in particular?

—Has the dependence of IJC on governmental personnel for various studies and activities limited the capacity of the Commission to make independent judgements? If so, should the IJC procedures be changed? What should be the direction of future IJC personnel policy?

—What are the built-in constraints that emerge from the use of such personnel and how does it effect the work of the Commission? (e.g., conflict of interests between responsibilities to IJC and to their own governments; time constraints due to divided responsibilities; etc.)

A possible solution to the problem posed by the employment of governmental personnel is through contracts with private firms. The desirability of using such non-governmental personnel should be examined. Furthermore:

—Can qualified staff be hired for short periods of time?

—Would contracting with private firms to undertake studies impede the free flow of information that now exists, and will it cause duplication of effort?

—How can the problem of maintaining the confidentiality of information be solved?

—How can the governments still be involved although outside personnel is being used? (This is important in order to maintain their political stake in the outcome.)

Some considerations regarding both service and personnel may be:

—In what areas were each predominantly used?

—Are there areas that ought to use one type and not the other?

—Should the Commission's staff be enlarged and replace the borrowed staff? (Please refer to pages 17, 18, 25 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(7) *IJC and the Funding of Reference Studies*

Governmental agencies find it increasingly difficult to procure funds and implement new references. It was agreed at the IJC Seminar that the problem of receiving new references without funds to carry them out is likely to increase in the future. Furthermore, the Commission has no fiscal control over the work done in its name by agencies assigned to tasks.

The U.S. Congress recently approved a new procedure which gives Congress more control over the budget. Federal agencies will be required to justify their own programs and it can be anticipated that there will be little in the agencies' budgets to do work for others. This may force the IJC to stand on its own.

A mechanism to provide the financing of new work requested by the governments, control over current work, and financing of works recommended by the Commission should be established. A presentation of several alternative solutions to the funding of references and their evaluation could be useful. (One possible solution is a revolving endowment for the IJC to finance new references. A drawback of this solution is that the money could only be used for specific references from the governments and not for work initiated by IJC.)

Possible alternatives should take into consideration problems like:

—Restrictions posed on the Commission through outside funding sources.

—The initiative role of the Commission and at the same time its institutional dependence on the two governments.

—Differential financial problems faced by the two governments. (Canada is faced more with the problem of personnel to deal with references than funds.)

—Private sources of revenue and the restrictions and constraints they may have on the Commission's work. (Please refer to pages 18, 19, 20 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(8) *IJC and the Public*

The Commission and its work is virtually unknown to the general public in the United States and Canada. For many years, the Commission's primary function was the processing of applications for projects involving private parties, yet public interest was absent. In looking for possible explanations for this phenomena, the answer may be in the nature of the institution itself.

The *modus operandi* of the Commission and its close ties with the Department of State and of External Affairs, effectively isolated it from public involvement. Its rules of procedure in some instances preclude public access (e.g., IJC boards may not hold public hearings, this power being reserved to the Commission itself).

In recent years, it seems that IJC has entered a new phase with regard to public participation, interest and responsiveness. The problem of public participation has two sides that ought to be examined. The interest and participation of the public in the Commission on the one hand, and the openness of the Commission to the public on the other hand. The two sides are related but may be distinguished analytically.

The presence of non-governmental people on board guarantee that public has open access to information, thus adding to the image of openness and increases public confidence and awareness. Since the Commission is conducting the public's business, the public should be involved. Moreover, its membership would serve as a safety valve and assure that issues are not overlooked. We should keep in mind that the management of the Great Lakes Basin, which is the location for huge urban and industrial complexes, is of great interest to a wide range of public groups and organizations.

The problem of IJC and the public calls for examination of issues like:

—What are the constraints and drawbacks of public participation (e.g., confidentiality, the need to maintain a distance from the public, etc.) and how may they effect the Commission?

—What are the institutional barriers, contacts and channels of communications between the Commission and the public, and how can rigidities be modified in order to encourage public accessibility and participation and to stimulate interest in the Commission?

—What were the forms of public participation in the past and which were encouraged or discouraged by the Commission?

—What environmental groups are interested in IJC and how have they participated or influenced the Commission?

—What kind of pressure and in what areas did public groups impose on the Commission? In what cases did the Commission "give in" and where did it anticipate the pressure and was initiative? How did the differential response influence the Commission's prestige?

—In what boards and at which levels is public participation most desirable?

—How often and at what stages of the Commission's work should information and reports be released and how has this problem been dealt with in the past? (Please refer to pages 20-23 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(9) *IJC and New Planning and Surveillance Authority*

The IJC was not granted a planning role with respect to the boundary waters by the Treaty. Thus, the Commission has neither the authority nor the resources with which to undertake a planning function. Under the terms of the 1972 Agreement on the Great Lakes Water Quality, the IJC was assigned new responsibilities, the first of which is collection, analysis, and dissemination of data and information on Great Lakes Water Quality. (As of December 1972, the Commission had 8 surveillance boards under it. This does not include the GLWQA.)

Coordinated planning on a comprehensive level is a key to any meaningful basin-wide endeavor, one that only a

binational arrangement can provide for the Great Lakes Basin. Jointly agreed upon objectives are the premises for joint planning. A binational body might also require a considerable strengthening of cooperative relationships at local and regional levels.

It was suggested at the Canada-United States University Seminar that the IJC should indeed become more involved in policy planning and management functions delegated to it by the two governments. The management functions are surveillance and mediation. Surveillance is defined in this instance as information gathering, data interpretation and dissemination. It is a function concerned with problem identification and definition. Surveillance is necessary for the detection and continued monitoring of the important trends in resource use and socioeconomic development within the Great Lakes. Establishing a broad information base for the Commission would enable it to anticipate problems along the boundary, to advise the governments more often, to make more meaningful recommendations, and to be more active in general. Mediation is viewed as the management function beyond that of surveillance, requiring broader authority and responsibility. It is an active role in which joint activities are agreed upon and conflicts are resolved through discussion and consultation.

The creation of new institutional arrangements must take into consideration existing institutions and authorities. Granting the Commission with these additional functions involves a series of considerations. Some of the institutional-organizational problems are:

—Has the GLWQA opened doors for managerial and planning roles which can be developed by the Commission itself and should this be encouraged by the governments?

—How should these functions be coordinated with existing government controls over planning?

—Should the governments build upon the GLWQA and establish the Commission as the necessary binational coordinating committee for national agencies?

—Should the structure of the Commission be changed in order to incorporate these functions effectively—what organizational improvements within the framework of the Commission should be made?

Further considerations might include:

—Would an information gathering body play a role in encouraging the governments to improve the level of interest in the environment?

—In what areas is the information gap most manifest and what areas should be given priority (economic development, land use planning, environmental planning, etc.)?

—Should the IJC be the information gathering agency along the boundary or would it not be better for the Commission to focus on specifically defined problems which are referred to it by the two governments?

—How would it help IJC carry out its specific responsibilities if it provided information to others on matters not under its jurisdiction?

—To what extent should the scope of the Commission's jurisdiction be extended?

—How should information exchange among interested parties be coordinated?

—How would the Commission be effected if it were aware of existing and potential problems but unable to resolve them?

—What are the obstacles which stand in the way of granting the IJC with policy making and administrative authority to enable it to carry the additional functions and a coordinating role?

—What can be learned from the work of the GLWQ Board and the surveillance boards of the Commission with regard to experience with these functions in the past and their extension in the future? (Please refer to pages 20-28 of the "Summary of the International Joint Commission Seminar on the IJC; its Achievements, Needs and Potential," for additional commentary on this point.)

(10) *Toward Developing a More Comprehensive and Systematic Approach to the Management of the Great Lakes*: Specifically, this will require, among other matters, (a) program responsiveness by requiring that activities of a postulated joint management body be subject to program and budget authorization and review on, for example, a biannual basis; and (b) joint agency budget and administrative procedures.

A comprehensive approach to the management of the Great Lakes will seek solutions to problems concerning the region and will enable their identification and examination within a wider framework. Strengthening comprehensiveness is expected to provide improved insights into the nature of the complex system and its pattern of interaction. An important aspect of such an approach, which will have an important bearing on the effectiveness of a possible joint management body, will involve administrative procedures.

Our interest in administrative procedures is in their relationship to the functional-programmatic aspect of the management body and to its financial-budgeting aspect.

The problematic nature of the administrative procedures lies primarily in the international nature of the management body (apart from the "usual" problems that are inherent to any managerial body). In order to consider administrative procedures, an examination of those now utilized by the Great Lakes Water Quality Office should be attempted as well as considering new procedures.

Some of the questions that ought to be considered with regard to the functional aspect are:

—What are the actual or likely constraints that impinge upon the administrative procedures as determined by the international nature of the management body.

—What are the current administrative procedures that govern decisions regarding determining future programs. What changes would be needed to make a joint office effective?

—What are the administrative regulations that control and direct these programs? What changes would be useful to support effectively a joint office?

—How often are the programs evaluated and revised? What are the criteria for revision?

—How is Canadian and American cooperation achieved with regard to both determining and supervision of current programs? What would be needed to develop effective programs under a joint office?

With regard to the financial aspect, questions that ought to be considered are:

—How would the budget of the management body as a whole be determined? How is the budget for the present joint office (water quality) determined?

—What are the standing administrative procedures that supervise and control the budget of the management body in general and of specific programs in particular? How might this be improved?

—What are the considerations that determine the budgeting of specific programs (an evaluation of the role of pressure and interest groups, formal and informal, in determining the allocation of capital is of great importance)?

—How is the financial burden shared between the U.S. and Canada? How might it be shared?

Recommendations for future changes with regard to administrative procedures ought to be made on the basis of current procedures. Administrative technicalities that seem to impede, or prevent an adequate operation of the management body should be mentioned and ways to eliminate or overcome them presented.

The Chairman: I call on Senator Rowe to commence the questioning.

Senator Rowe: Mr. Chairman, I am not quite clear in my mind just what the powers of the IJC are. I have the impression that the IJC has no executive powers as such. Is that correct? It cannot say, "You can establish or you cannot establish a particular industry here."

Professor Dworsky: There are two functions worthwhile noting, in response to your question. The first is its adjudicative powers. I cannot say whether that would be called executive or decision-making powers, but the fact is that their findings hold. For example, with respect to an application from an industry that wishes to modify the flow of water into the lakes from, say, a tributary stream, or wants to put in a power dam that will change water flow or adjust the level of a particular waterway, the IJC apparently does have judiciary powers in the sense of making a finding. As I understand it, although I would leave the conclusive statement to those who follow the law, their findings do hold and have held.

The second major point, which is becoming much more the task of the commission, is that of undertaking wider-ranging planning studies. These wider-ranging planning activities consider questions like how should we manage the level of the Great Lakes, how should we manage water pollution, how shall we manage the pollution that flows off the land and that affects the lakes. These planning studies come about by way of a reference, which is a common document from both countries to the International Joint Commission asking them to look into the particular question. Then, using the powers and executive agencies of government, to undertake the study, the IJC then reports back to governments with recommendations. That is where they stop. The governments then take up the task, making agreements and arrange for additional necessary actions and so on. On this point, then, with regard to references the IJC does not have decision-making power. They merely make recommendations to the governments.

Senator Rowe: The question I was going to ask first, Mr. Chairman, is one that on the surface does not seem to have too much relevance, but it may have some reference

to the matter we are discussing. Let me preface the question in this way. When I went to England first, some 20 years ago, the Thames was at that time very little better than a sewer; it was a pretty dirty, smelly, nasty stream. When I was there last year—and this is common knowledge—the impression was given, and certainly from looking at it one could see, that there has been a tremendous improvement in the quality of that water, and only in recent months we have heard that there are some indications that salmon and other fish, that have not been there for over 100 years, are returning. I know the two situations are not quite similar or analogous to any great extent, because in the case of the Great Lakes we are dealing with large relatively placid bodies of water and in the case of the Thames we are dealing with a river. Nevertheless, there are some similarities. You have 20 million people in the Thames basin and you have great industries and a lot of other things going on in much the same way as we have on a bigger scale around the Great Lakes. Has there been any liaison between the IJC and the British authorities in this matter? I do not know, frankly, what the British have done to clean up the Thames. Have they resorted, for example, to chemical measures—and here I do not mean the treatment of sewage and things like that—to treat the water itself in any way? I wonder if either of you gentlemen could give us some insight into that particular matter.

Professor Dworsky: The knowledge we need to clean both the Thames and the Great Lakes is common knowledge, and this is not restricted to just our three countries. It is worldwide. I am speaking now of the processes of pollution control, by the construction of both urban and industrial waste facilities, by changing the processes of industry, and by eliminating, for example, certain types of toxic materials—all these things are well known. The Thames has been improved greatly, as I understand it, by the construction of facilities that have removed the excessive amounts of pollution that used to flow into the Thames. The Great Lakes, of course, are pursuing the same venture and the Great Lakes Water Quality Agreement, with which you are familiar, and which was established by Prime Minister Trudeau's and President Nixon's executive action of 1972, clearly calls for the same sort of action. A set of goals and standards have been established, treatment requirements and time schedules have been established, and the governments have said that they would provide the amounts of money necessary to assist local communities in building needed facilities. That there is some slippage in this area is also indicated by a *Globe and Mail* article of a few days ago. At any rate, however, the knowledge is present; we know how to control pollution; we are using the same techniques. The differences lie again essentially in the will of the governments. Do they wish to do it? Will they appropriate the necessary moneys? Will they set out to do what we know how to do, and if they will, then we can clean up the Great Lakes.

Senator Rowe: In fairness we could say, could we not, where you have a unitary authority such as you have in England, the situation is much easier to deal with than it would be in the case of the Great Lakes? On that point you have mentioned, however, a couple of months ago I saw a TV program dealing largely with fisheries and I understood it was on Lake Erie—a commercial fishery—and I got the impression that Lake Erie has improved in recent years, to the point where an expanded fishery development has taken place. Is this so? Are the Great Lakes cleaner today than they were seven or eight years ago? Has there actually been an improvement in the quality, or,

to put in another way, has there been a lessening in the amount of pollution in the Great Lakes generally in the last few years?

Professor Dworsky: I shall give my summation of that. I think there are three things happening. Surely the governments are moving more effectively during the last five years to use their political will to appropriate moneys to enforce actions and to clean up the pollution coming from cities and industries. At the same time we have two other factors that tend to reduce the effects of this. The first is the growth that takes place concurrently with new population and new industry. So the real question is whether we are moving fast enough. The next factor has to do with what people expect and I think a great deal of the problem concerns public expectations.

Water pollution control goals that were sought three decades ago were very modest. Two decades ago the standards were somewhat higher, and the standards we are seeking today are much higher. The 1972 Water Pollution Control Act in the United States proposes to move toward the elimination of the discharge of pollutants into any body of water. That is a very high expectation. We have a debate going on as to whether or not this is a valid expectation. In summary, we are moving forward on the aspect of public will and dollars. But whether we are in fact overcoming the pollution problem depends upon how fast we are gaining on new pollution producing developments and how the public views the problem of pollution in terms of how clean they expect it to be. By and large I would say we are gaining on the problem.

Senator Rowe: Just one final question, and I would not want to put anyone on the spot, but I have been wondering in my own mind—and I think this is a legitimate question—as to whether we are fooling ourselves here. Can we bring back the quality of the water in the Great Lakes, given the tremendous population and the tremendous amount of industrialization and given the fact that we are not really doing anything to stop growth there? Industrial growth is going ahead, and population growth is going ahead in a geometrical progression, and other growth as well. You have the tremendous needs of industry and you have the power of industry to be reckoned with. You have the selfish—and I do not use that word in a derogatory sense—interests of varying municipalities. A city like Chicago has special needs and is not likely to be too concerned about the needs of Toronto. So, given all these factors, and in continuing along the present approach, are we not fooling ourselves? I am not saying we are, but I am asking the question in all sincerity. Are we fooling ourselves in this regard? Can we really bring back the pristine purity or any approximation of it of the Great Lakes?

Professor Francis: That is a good question. I think you are quite right that it is unrealistic to aim for an ideal such as pristine purity. We are just trying for improvements at this point so that the water can still serve a whole variety of purposes. The point you made about the continual growth, the urbanization and industrialization patterns around the Great Lakes, is really the main one. It is the reason we are suggesting that it is necessary to get a better understanding of these processes of economic growth and development and the accompanying changes in land use, which are generating the problems in the water. So far much of the effort has been devoted to understanding the water problems by doing studies which document the pollution for example, and coming out with some recommendations for change. We really have to look at this in a

broader context. I think this is the challenge which lies ahead, and we would like to see that question opened up.

Senator Carter: When you are working out your standards, what do you hope to achieve, what are your goals? Are you trying to achieve a standard that will permit life in the waters? If so, to what extent? Are you trying to get it to the point where it could be used as drinking water? Just what level of quality are you aiming at?

Professor Dworsky: We have a number of uses for the water in the Great Lakes. Drinking water is one, fisheries is another, industrial water use is a third. These, of course, require certain standards of cleanliness. The standards we have adopted are good standards with respect to the degree of cleanliness needed for protecting animals and their habitats, for protecting the drinking water supply of people, recognizing that such water is usually provided with purification facilities, and providing industry with an adequate supply of clean water. I think the Great Lakes standards that were agreed to by the negotiators representing Canada and the United States are very effective standards, and are generally approved.

Senator Carter: You have mentioned three separate goals: one drinking water, another industrial use, and another the protection of life. They are really three separate standards; each one has its own standard.

Professor Dworsky: Yes, each has its own standard. The standards for the protection of aquatic life would probably be the controlling standard. If standards for recreational waters, fishing and the protection of aquatic life were reached all other waters and their uses would in fact be protected.

Senator Carter: That is really the top standard?

Professor Dworsky: That is right.

The Chairman: Let me clarify that slightly. When you refer to drinking water, you are speaking in terms of taking water from the lake, but still being able to chlorinate it in the ordinary sense for city purposes and so on?

Professor Dworsky: Yes.

The Chairman: When you refer to recreational standards, you mean the type of standard where a man could swim from his summer cottage?

Professor Dworsky: That is right, or in the big cities—Toronto, Cleveland or Chicago.

Senator Rowe: Are there parts of the Great Lakes where the existing water can be drunk, like parts of Lake Superior?

Professor Dworsky: I think by far the greater proportion of the Great Lakes is of a very high quality. It is only along the shoreline, where people intercept with the lakes, that you really have problems. This, of course, is what the issue is all about.

Senator Belisle: Since we have here these two distinguished professors from both sides of the boundary, I would like to know what consultation or co-operation there is by you gentlemen. The reason I ask the question is this. I have been informed that there are eight or nine commissions on the States side. I am fully aware that there are many conservation authorities in Ontario. These conservation authorities, which represent districts and counties, have federated themselves into a provincial authority. At

noon today I had the privilege of having lunch with the chairman, who has been concerned with part of it for the last eight or nine years, and he informed me that he has yet to be invited to discuss or consult with you people. He also informed me that the Province of Manitoba, which copied our act, or most it, regarding conservation, had invited him, the premier and minister on two or three occasions to speak. Is there consultation?

Professor Francis: With regard to the Canada-United States seminar two years back, we did have people there from the Metropolitan Toronto and Region Conservation Authority who participated in that series of meetings. It was more a matter of getting a manageable meeting with people from a variety of agencies with different functions to contribute to the discussions. I realize this is not consultation with the authorities *per se*, but we certainly had representatives and the view from one of the larger and more impressive conservation authorities in Ontario, namely Toronto.

Senator Belisle: Would you not agree that Ontario is a parcel of land of such importance that it should be consulted? My next question is this. You said you would love to see the authority—I presume you meant the IJC—using more and more of your staff, your personnel or your knowledge. Is that what you meant?

The Chairman: I do not recall that.

Senator Belisle: Then I misunderstood.

Professor Dworsky: Perhaps I was not clear. We are simply individuals who, because of our interest, our citizenship and our concern for natural resources, have voluntarily banded together to explore these questions through our universities. We are also interested in public affairs. We have sought some money on our own. These are research funds, which come through normal research channels, at least to my university and to myself; we are using these funds to support the kinds of studies we are undertaking. There is no relationship here with the official agencies. We do not belong to any official agency. We have no responsibility to them other than our research agreement and of course we must be responsible and credible as researchers and persons. We are trying to seek out answers about the Great Lakes for public use, and to work with government people at the same time.

Senator Bélisle: In other words, your funding is done, as you said, by you, or through your university, or through the state. Are you getting any funding from the state?

Professor Dworsky: No.

Professor Francis: Actually, the funding in back of the seminar report you have before you, and which we will be following up by further studies, has come through the United States Office of Water Resources Research to Cornell University and is administered there by Professor Dworsky. Perhaps as other kinds of studies get under way we can apply to other funding sources, including Canadian ones. So far it is a research grant to Cornell University that is backing the studies we are referring to here.

The Chairman: I believe in Professor Dworsky's earlier remarks he made the point that they were having to use their limited funds, private funds, that they have through the university, to conduct studies that might more properly be funded or studied individually by government agencies. Was that the point?

Professor Dworsky: Yes. What I was trying to say was that the studies we are undertaking are about the questions we think governments should be studying.

Senator Bélisle: Would it not then be logical, if you are going to make a study or do research on the environment, that the proper place to make an application would be to the Government of Ontario in order to get some funding? Large grants are given for research on the environment, water or land use.

Professor Dworsky: That may be so, but we have not sought them from that source.

Senator Bélisle: My last question is this. On the United States side there is a body called the Great Lakes Basin Commission, representing eight or nine federal agencies. To what extent does this body provide adequate co-operation and planning with you people?

Professor Dworsky: The Great Lakes Basin Commission is one of our important agencies that is designed to bring together the federal government agencies and the states in a particular region. We have some seven of those now—in New England, the Ohio River valley, the Great Lakes, the Columbia, the Upper Mississippi, the Missouri and the Arkansas. The purpose of the Great Lakes Basin Commission is to carry out the authority granted to them by the Water Resources Planning Act of 1965. One of their responsibilities, is to develop plans for the management of the Great Lakes.

The problem with a Great Lakes plan designed by the United States Government and the states is that it can deal only with half the problem, it cannot deal with the Canadian half of the Lakes. There is a new voluminous study now being printed, containing some 20 volumes. It is an excellent report and I hope that the committee will get a copy for its files. But the fact of the matter is, no matter what they report, they can only outline a plan for half the lakes.

This points up one of the important questions I touched on before, and if you do not mind, Mr. Chairman, I would like to pursue this for a moment. One of the recommendations we have made is that the IJC be given some planning authority. Let me explain.

When a major problem arises, the two governments must first agree to consider doing something about it. In recent years an increasing number of references concerning broad problems have been referred to the IJC. The IJC reacts to the references sent them and then initiates its activities.

In addition to this reactive procedure, we would like to have a general reference granted the IJC by the governments, for the purpose of allowing the IJC to look not only at problems that have arisen, such as the crisis of water pollution, but also at potential future problems so that we may be aware of these before they become crises. In other words we are asking that some kind of planning function be given the IJC.

We believe the IJC can be given a general grant of authority for recommending references say, for a five or ten year period. The IJC will continue to be under the control of the governments but it would have a general reference for planning. This means that IJC would not merely be standing by and reacting but would have a forward view, which we believe is essential. In that case,

hopefully—and it may be that Professor Francis would wish to comment on this—Canada might want to undertake a planning task on the Great Lakes somewhat comparable to what the Great Lakes Basin Commission is doing. It does not mean that all planning has to be under one office or under one head, but if both countries were planning ahead, they would find ways to bring the knowledge together.

Senator Cameron: You refer to about 20 volumes. What size would they be?

Professor Dworsky: Each volume would be about this size.

Senator Cameron: I had responsibility of publishing a lot of university publications and I found that the consumption was almost in inverse ratio to the size of the volume.

Professor Dworsky: There is also a summary this size.

The Chairman: The last point you were dealing with was about the IJC having an ongoing planning and surveillance reference made to it. That could be done by governments quite independently of your recommendation number one,—that they have power to recommend their own references?

Professor Dworsky: Yes, I think this would be so, but there may be a link if they had a planning reference that would allow them to look forward into the future to identify problems. This activity would provide the basis for their making recommendations to the governments with respect to proposals for references to the IJC. What we are asking is that the IJC have an opportunity to propose to governments references that would come back to them.

The Chairman: I have your point. It is not that they can simply recommend references to themselves; it is that they can recommend a matter that could be sent to them. There is a good deal of distinction there.

Professor Dworsky: There is.

Senator Carter: Would you be in favour of the IJC having blanket power to conduct or initiate its own investigation?

Professor Dworsky: No sir, I do not think so. What we are asking is that they be as responsive, not any more or any less, as executive agencies are in Canada or the United States. Under your arrangements or under our arrangements, government agencies come to Congress or to Parliament annually for program review, and for authority and for budgeting, and, while it may not be necessary to do this on an annual basis, we are suggesting a bi-annual basis, that may be possible for IJC as an international body. On the other hand we expect it to be responsive to governments and report at whatever period is appropriate, for both programming and budgetary authority. As long as the governments keep control over what is happening they ought not interfere too much with the opportunity to look into the future.

Professor Francis: I should like to add that one thing we are really interested in seeing is that the IJC be invited to get a wider perspective for some of these studies. It should be able to assess for example, land uses and land planning as these may effect water quality and water uses and make recommendations within this broader scope.

Senator Carter: What you are really asking for is that the IJC have broader terms of reference than they have now, but that they should go to the governments and recommend to these two governments that they should have broader terms. I think that is what you are saying.

Professor Dworsky: If they had a general authority for planning, that would give them a broad opportunity to identify questions. They would be independent to identify issues and linked for responsibility. Once that happens they could make recommendations to the governments for references. Then we would hope that the recommendations or references would provide a broader base of planning and study authority than they have now.

Senator Carter: I can see your point, but it is a matter of control. As long as the government holds the purse strings for funding any project, surely the government has the ultimate control for the funding?

Professor Dworsky: We are concerned about the question of supranational organizations and no one is recommending a third party between the two governments. There is no agreement or interest in a supranational agency. What we are striving to do is find ways to strengthen Great Lakes management under the general arrangements that now exist, we are simply recommending a broader base of action be created, and which Ambassadors Heeney and Marchand recommended in their excellent report some years ago; that a Republican ad hoc committee of the Congress also recommended subsequently, and which we now are recommending. We think the time has come for such action.

Senator Grosart: Is it a major recommendation you have, that the necessary authority, the authority which you think is necessary to do the plan, be given to a new body rather than to the IJC?

Professor Francis: We discussed those two options and it could be argued either way. I think our own view is that we would prefer to see something in the way of expanding the IJC. We were favourably impressed with their experience and thought that would be the way to go.

But in that connection, we would like to draw the committee's attention, Mr. Chairman, to the recommendation which was before the United States Subcommittee on Inter-American Affairs, when they summarized their views. What the recommendation does is deal with the whole question of the Great Lakes and open it up a little wider in terms of discussing where we go from here. That may be the next step. After you have had a chance to review the materials and hear the witnesses, you may wish to consider that kind of recommendation yourselves.

The reason I say this is that we have had occasion to talk informally with quite a number of people, including officials in the federal government and in the provincial government. They are quite aware of the problems and they recognize the need and possibilities of further work on the Great Lakes, with the broader perspective that has to be taken. At times we detected a certain reticence among civil servants about whether they were free to talk openly, because there was no official expression of interest, there was no parliamentary body which had declared that this was something which should be looked at more carefully and more frankly in order to open up a discussion on it.

So, if you are talking about what we would like to see, it is some expression of interest by a Canadian parliamen-

tary body like yourselves, which would say, let us have a look at what more needs to be done between Canada and the United States for the planning and management of the Great Lakes. That would be an occasion to explore a number of issues in terms of the appropriateness of expanding the role of the IJC in quite a number of these areas.

Professor Dworsky: That question was asked by Congressman Fascell also during the meeting of the subcommittee and our response was that we preferred not to make a precise decision as to which way to go. We felt that this, of course, was clearly a matter about which both the Congress and the Parliament had to be concerned. We thought it was enough simply to say, "Here are two options to strengthen the International Joint Commission as it now stands," and which are feasible. But, on the other hand, if the governments are not alert, our concern is that the problems of the Great Lakes will grow and, at that time, we are going to get more pressure for a new treaty on the Great Lakes. We think that kind of sequence may very well take place. This is why we are asking you to take a look at these questions now and the resolution that Mr. Francis was talking about, the one I quoted before, in which we asked congress to advise the president that he undertake conversations with Canada in order to undertake a study looking toward strengthening the management of the Great Lakes.

Senator Grosart: With respect, I do not think that is very helpful. You have been asked a simple question. I think you could give a simple answer. The simple question is: Do you come down on the side of one or the other, first of all? And I think I can take a yes or no to that. Do you come down on the side of alternative A or alternative B? Alternative A would be to increase the powers of the IJC so that they would be adequate to do the job. Or do you think it is absolutely necessary to have a second institution?

Professor Dworsky: Based upon the fact that we have the IJC seminar that explored this question in some depth, as for me at the moment I would come down on the point of saying let's strengthen the IJC as it stands.

Professor Francis: I would agree with that.

Senator Grosart: Would you see these two alternatives as mutually exclusive, then?

Professor Dworsky: No, sir, they are not mutually exclusive.

Senator Grosart: Would you see, then, a division of authority in this problem between the IJC and a new body as feasible?

Professor Dworsky: Yes, sir. We have some experience on that. I know that there is new interest on the Columbia River treaty and people from British Columbia are concerned about the way that went, but the fact of the matter is that from an organizational standpoint the IJC did an initial study and made recommendations to the governments. It was the governments who finally made the agreement, but what they did, in fact, was to spin off a new management body which is composed of two people from British Columbia and, on the U.S. side, the general manager of the Bonneville Power Administration and the Division Engineer of the Corps of Engineers for the Pacific Northwest Division. Those four people are, in fact the operating managers of the Columbia River for power generation and flood control.

Here was a case where the IJC had an interest, but the operation was clearly spun off to another body. It is not a comparable situation, because the Great Lakes is not as simple as the Columbia River, and the Columbia is very complex. It may well be that the IJC could have some general overall review powers with the operating day-in-and-day-out operations of the Great Lakes spun off to another body.

Senator Grosart: Isn't it so that it already has many of these spin offs? It has many subsidiary bodies that are managing specific things on which they have been given orders. If there was a secondary one, because you make a strong case for a secondary, and, in effect, an alternative body, would you see this as subsidiary to or independent of the IJC?

Professor Dworsky: We have considered the existing bodies, the regulating entities, the study entities, the surveillance entities and so within and outside the IJC. There is a large number of such organisations, perhaps about 30, and they act quite independently, usually. The recent lake level control study took nine years, and was conducted as a separate study by a U.S. agency during much of this period. The International Fisheries Commission has not related its work in any substantial way to others working in the Great Lakes. The Great Lakes Water Quality Agreement is primarily involved in water pollution. Sitting as a member of the Great Lakes Research Advisory Board I have not observed significant conversations about the relationship of water quality to navigation, except as a sanitary matter, or to power from the economic development aspect or to lake levels. It seems to us that today, with the interdependency of these functions, their relationships one to the other, some strong and some less strong, that the time has come to think of bringing the closely related functions together in some manageable way. Separate boards operating in separate compartments and not effectively being brought together at the IJC level is not adequate for today's purposes.

Senator Grosart: You seem to suggest, from the very nature of your organization, that the Great Lakes problem is unique and, therefore, requires something more than the kind of management—and I use the term advisedly—that the IJC has given this problem. Do you see it as something so separate that it should be taken away from the IJC?

Professor Francis: No, we do not. That is the whole point. We would like to see the IJC's functions expanded to encompass the range of problems.

Senator Grosart: The IJC, as generally regarded in international law, is probably the outstanding example of the transfer of national authority to a supranational body. For 60 years it has grown and has invariably been held up in international laws as having this unique position. Are you now suggesting that it should have greater authority, which I presume would mean a rewriting of the boundary waters treaty? Do you see it as having much greater authority than it has now; and, if so, what kind of authority?

Professor Dworsky: The present thought is that many of the things that are being proposed will not require a rewriting of the boundary water treaty. Actions that are, being proposed may be in fact, well within the bounds of the existing treaty. It depends upon whether or not the

political will of the two countries is such as to provide for expanding their activities. This supplementation is being tested in the 1972 executive agreement on water quality which allocated new and expanded responsibilities to the IJC. For example there is now a joint office with authority to monitor the Great Lakes rather than depending on the province of Ontario or the states, or on the federal governments. The same holds true for the matter of putting out reports to the public and to the governments. These illustrate new or expanded efforts that have arisen out of the water quality agreement. We think this is correct and is a good start. We believe we ought to build on these practices and move on to encompass some of the other problems.

On the point of whether it is a great organization or not depends on whom you compare it with. The international management of water pollution is poor in terms of its record. The IJC, too, has a poor record on this matter. We know that the first important task the IJC took up in 1912 was the problem of water pollution in the Great Lakes. A recommendation for a new treaty to cover the Great Lakes was made in 1920 and the two countries turned it down. Nothing else was done until 1946, when another study was made. Recommendations for objectives and standards were excellent and were agreed to by 1954. The professional field work was outstanding. Except for establishing a small ineffective office for surveillance of the Niagara Frontier area, nothing substantial was done by the two governments. But the problem continued to get worse until 1964 when again a third reference was made for three of the lakes. It was not until 1974 that the countries agreed to authorize the IJC to examine the water pollution problems of the upper lakes, Lake Superior and Lake Huron. In terms of the record, either we have been very slow or there has not been much of a problem. The fact of the matter is that there has been a major problem. Unfortunately, we waited until a crisis occurred. I think we are getting on top of it now. I hope we will continue to be.

Senator Grosart: Who else has a better track record?

Professor Dworsky: I do not think anybody has a better record. We are just trying to point out that we ought not to be proud, necessarily, of our record. And comparing it with other poorer arrangements does not make ours any better.

Senator Grosart: It does, because that is the very essence of the word "better"; it is comparative.

Professor Dworsky: But not in terms of the problem itself.

Senator Grosart: But we are still doing better than somebody else.

The Chairman: But not good enough.

Senator Grosart: We all agree. Where is there perfection? Where is there perfection in international relations? Then we have to remember that the whole subject of pollution and our politicizing of it is of very recent origin in international relations. We did not hear much about pollution until a few years ago. The Baltic got polluted before anybody made a single recommendation.

Professor Dworsky: Well, senator, I guess I was going through this brief history for the record. I think we can recognize the fact that the countries had a very clear understanding of the importance of pollution going back

some 60 years and the record is very clear also in terms of their knowledge of the importance of this problem.

Senator Grosart: Well, as I say, it is practically only since the Club of Rome that the problems of pollution have reached the magnitude that they have reached recently. Everybody has had pollution from time immemorial; there are some Roman documents on the subject that are quite interesting, but it was not the kind of awareness of the problem that we are now talking about.

However, to come back to the question of whether the treaty should not itself be revised, the original authority given to the IJC, as I recall it, was largely to deal first of all with disputes then current, and then to make provision for the adjustment and settlement of all such questions as might hereafter arise. I am quoting from page 27 of your report. Now there is a hiatus there. But the sense of it is here. It merely says, to make provision for the adjustment.

Professor Dworsky: I was looking at the same thing. Last night I looked at those first three words following the quote in the middle of that first column. It says, "to prevent disputes" and it occurred to me that we keep talking about ameliorating problems that exist, when we ought to be considering means to prevent problems by looking forward, and which we have not done.

Senator Grosart: Well, that is what I am wondering about, whether the authority is not already here. It is commonly said that the IJC has these two kinds of authority: one where there is an actual work of some kind contemplated; and the other where they have a reference. I am just wondering if they have not had all along the power to prevent these things by planning. What is your view on that?

Professor Dworsky: We would hope that it would have. Then the actions that need to be taken are well within the powers of the governments under the existing treaty, and it would be great if that were the case. If they were interpreted in that fashion, we think we could move along at a much better pace. Certainly we could do better than we have done in the past, and achieve what many of us believe should have been done already for the Great Lakes.

Senator Grosart: Would you say that it was necessary for the subsequent agreement to be negotiated—the Great Lakes Water Quality Agreement—for the IJC to move into the field or, perhaps I should say, the area of water quality? Was this necessary? Did they need it?

Professor Dworsky: I think it was absolutely essential. I fear for the health of the people and the economies of both Canada and the United States in the Great Lakes region.

Senator Grosart: I am not speaking of that aspect. I mean, was it necessary to have the subsequent agreement? First of all there was the "treaty" and then there was an "agreement"—and they are much the same thing—for the IJC to move into the water quality field.

Professor Dworsky: They first had a reference—and I might point out that the first secretary of the American Embassy, Mr. Ed Nef, is here and he was instrumental in the negotiation that took place. But the sequence of events, as I understand them, was first the granting of a reference by the two countries to the IJC to make the examination of lakes water quality. There are several volumes dealing with the technical studies. Then there

was the question of making recommendations with respect to criteria, standards, treatment requirements and time schedules and things of that sort. Having done that the two countries came together and through negotiations developed the definite agreement. Then, at that time they specified to the IJC its operating powers, and this where the IJC is now. It has established a joint office at Windsor, Ontario and it is executing the specific authority granted it by the two governments. Important elements of the IJC include the Water Quality Board comprising representatives of the States and the province of Ontario, and federal members; the Research Advisory Board and so on. The IJC is now an operating entity under this agreement. This results from new and reconfirmed powers.

Senator Grosart: What powers?

Professor Dworsky: If you would look at page 44 of our Great Lakes Report you will find we say that these were either new or reconfirmed responsibilities, and then we list them. Some of the new ones would include the establishment of the joint office; number eight is a very important one—the authority to independently verify data and information submitted by governments. Then there is the discretionary authority to publish its own documentation prepared in the course of its functions on the agreements which maybe a new function. The idea of co-ordination of Great Lakes water quality research is a new function. Again, advice and recommendations to governments on boundary water pollution reflects a broad based reference, and contributes to the authority to make recommendations to the governments. These are the items I regard as new powers, although some are existing powers which were reconfirmed.

Senator Grosart: It seems to me that in all of these cases, and I am looking at it just quickly, they had the power already. They certainly had power to collect, analyses and to submit data. They certainly had the power to advise and recommend to governments on boundary water pollution matters. What I am getting at is this; we are dealing here in this committed at the moment with the institutions that might help so much in dealing with problems between the two countries. Perhaps I should also add that throughout your proposals you go to some length to describe the limitations and the constraints on the IJC. Having said that, is the solution to this problem either more power, specific overall power, for the IJC or has the IJC already the power to create these spinoff institutions that Professor Cohen told us about? In other words, if we have to recommend something, then what are we going to recommend?

Professor Dworsky: I would suggest that if the IJC had this power or has the power, it has not exercised it. This may be for a variety of reasons. Either they do not feel that they have the power; or they are hesitant to expand into these areas, or they have not a clear sign from government as to the government's indicated will to move into these areas. Whatever the reasons may be, the fact remains that they have not exercised the authority you suggest they may have. Therefore, whatever it takes to give them assurance that they have the authority will need to be done.

Senator Grosart: Assuming they had this authority, the kind of authority that you see as necessary for somebody to have to deal with this problem, what kind of authority could they have over the many other authorities that are

dealing with the problem, from the private to the public, municipal and provincial levels?

Professor Francis: It is hard to answer that specifically. At this stage we are interested to see if their function with regard to what we call surveillance and mediation might be extended, as against authority in control. First of all, when we get a broader planning perspective and start to look at the various problems as an associated set of problems related to things happening on the land as well as in the water, it may well be that they would be able to do this, that legally they could get on with it. Maybe some authoritative expression of interest to suggest this should happen is all that is needed right now. It really depends on what is found out by surveillance and mediation activities as to what the appropriate follow up actions would be. I think at that stage you would have to take it through whatever the regular channels of government are in both countries.

Professor Dworsky: Nobody is suggesting that the IJC supersede the local functions of government or provincial or state functions. We are proposing classes of functions which provide for, in one case, the provision of information, its exchange and publication. There is a need to bring information together so that each party has intelligence about what is happening in the Great Lakes. Secondly, we are proposing that particular issues be identified; and that agreements on objectives, on standards, and on time schedules be established where and when needed. We are calling this class of action mediation. We are not proposing control. We are not suggesting enforcement powers. We think that a supra-national control agency at this stage of the game is not called for, although there are many people who might argue that. Some feel very strongly about air pollution, for example, because of the trans-boundary situations—Windsor, Detroit, Niagara Falls and so on.

Perhaps with air and water pollution we might want to come to authorizing a control function at some time. Under the Great Lakes Water Quality Agreement a review of the Agreement must be made by 1977. At that time it will be necessary to consider the need for stranger controls.

Local State and provincial governments must retain these responsibilities. But there has to be some strategy that allows eight states and Ontario, with untold numbers of large cities, small cities, counties, towns and regional governments to understand what their efforts ought to be, and has these are linked together. One is not looking for a perfect world, and one is not looking for a precise strategy. However, we have to find some reasonable way to say what it is we want in the best way human beings can.

Senator Grosart: Do you see anything at the moment to prevent the IJC making a complete study, or doing any amount of research whatsoever? Do you see anything to block them? Why can't they? You are putting a good deal of emphasis on the fact that we do not know the answers. Is there anything to stop the IJC from finding the answers?

Professor Dworsky: I really do not know. I would suggest that perhaps this committee, your Parliament and the United States Congress, through the Foreign Affairs Committee, might want to ask the IJC this question. The question might be posed to them: What do you think your authority is? What do you think you need to move into these areas that people are suggesting you move into? What is it you think you need to do what Ambassadors Merchant and Heeney said you ought to be doing? Let

them respond to you. We are, as I said, going ahead on the basis of how we think the commission is behaving. It is not behaving as if it were free to move ahead and do these things. Therefore, one is looking for those guidelines that will give them the option to go ahead.

Senator Grosart: Would you agree it already does have a substantial degree of supra-national authority?

Professor Dworsky: Only to the extent of the authority granted with respect to acting on adjudication problems under the treaty.

Senator Grosart: That is, it would seem to have complete control of any new work starting?

Professor Dworsky: That would seem to be the case, if there were changes in flows, water levels and the like.

Senator Grosart: So it would have authority to prevent, let us say, works whose effects would be adverse to the waters on the Canadian or American sides?

Professor Dworsky: That would seem to be very clear, I should think.

Senator Grosart: So there is a degree of actual supranational authority, not in the sense of authority over the nations, but over its citizens and corporations on either side of the border.

Professor Dworsky: Apparently so.

The Chairman: And some controls, surely, even over the nations themselves if they were to launch upon some works that were contrary.

Senator Carter: How could they do that?

Senator Grosart: I would be interested in hearing an opinion on that, whether they would have, let us say, authority to prevent the Seaway project, where the two nations had agreed on works in the St. Lawrence, which is a boundary water.

The Chairman: If the two nations agree on the work, yes. The two nations having agreed on certain works, the IJC could say that that particular work does not fit into the agreement, could it not?

Senator Grosart: I don't know. I doubt it very much. However, that is probably a much wider question than the one we are dealing with here.

The Chairman: Yes, we are off the subject.

Senator Grosart: It would be interesting, because I have not seen any discussion of it. I have read quite a bit about the IJC over the last few years and I have not seen any discussion of this particular aspect of it. The IJC itself has, in my view, been very timorous, very over-cautious in exerting the authority it has. Maybe this is the problem.

Professor Francis: In the light of Senator Grosart's comments, perhaps there could be a strong expression of interest from this committee that the IJC take a more vigorous and forward-looking role in terms of assessing the problems in and around the Great Lakes; that may be very appropriate at this time.

The Chairman: Harking back to Professor Cohen's testimony, as I recall it, he indicated that there was—if I could use the word political with a small "p"—political consideration in the IJC not to press itself to the point

where it lost its effectiveness as between the two governments; it did not simply want to test the barrier endlessly and carry itself to a point where it lost some of its effectiveness so far as the two governments were concerned. There is a political—with a small “p”—problem that they have there.

Senator Grosart: They have done it on a few occasions and got away with it.

The Chairman: It is a matter of degree and how often and to what extent. Very possibly recommendations of this committee could very well either encourage governments to encourage the IJC to go to the limits of their jurisdiction or give them further jurisdiction.

Senator Grosart: If they do not feel they have the additional authority, perhaps they should let governments know what they need.

The Chairman: Yes.

Senator Grosart: First, whether they are willing to accept that authority and, secondly, what they need to exercise it.

The Chairman: Come out and say, “We think we should have this additional authority given to us” or “this further reference made to us.”

Senator Carter: Let us assume that the terms of the IJC were broadened as you suggest. You are still faced with the problem of the multiplicity of agencies, many of them autonomous, some of them joint, some local and autonomous on both sides of the border. To be effective there must be some way of co-ordinating these agencies. Do you see any solution to that problem? What would your recommendation be? Unless they can co-ordinate these agencies involved in this, giving them wider power, they are not likely to achieve much more than they are doing now.

Professor Dworsky: If you have, as you correctly state, a large number of agencies, on both the Canadian and the United States sides, from local governments to state and provincial governments, regional governments, commissions and federal establishments—we understand the way the situation has been—and what it is likely to be in terms of tomorrow's problems. It does not appear to provide an adequate way to bring about the most effective use of the Great Lakes for the people in both countries. If one starts on that basis, then one asks where and how we can move forward. At the moment we are suggesting that the need for surveillance exists. That is another word for the development of information as to what is going to happen on both sides, in the development of land use, population distribution, in the development of power facilities, in the development of navigation facilities, in the development of agriculture, for the protection of fisheries, and even for some distant needs such as the management of parks and recreation. Citizens move freely from one side to the other and you find great numbers of Americans or Canadians crossing the border to the other side and using each others parks and rivers. It is the matter of having knowledge about these programs or projects and which we call surveillance, which ought to be of some assistance. If it is not, we are simply not being intelligent. I believe officials administering government programs are interested in trying to find ways to improve their programs. But problems occur because they have no easy way to develop some of the knowledge they need to have.

We have also to look at the massive collection of information that may be implied if we are not careful. We testified before the House Foreign Affairs Committee in answer to a question inquiring which specific programs ought to be brought together at the present time. We said it would be worthwhile to start with several, see how it goes, and grow as the experience of handling information improves.

The second point would be in connection with the matter of mediation. I referred to this matter before. It includes the development of objectives, standards, and guidelines, that would establish a set of precepts which local state and provincial governments would come to recognize.

How do you do that? If it were to be done just by the IJC, it may be that such recommendations, would be a step forward. If the recommendations are taken by the governments and established as law or policy on each side, without having it as supranational policy, this would provide a stronger basis.

For example, consider the case of requiring secondary waste treatment including phosphate removal as the treatment norm for improving Great Lakes water quality. This national goal was adopted by the United States and is being carried out by the states and cities. This exemplifies how one goal is being carried out at certain levels of government as a result of an overall program strategy and one can visualize the same sort of thing for other kinds of problems.

Senator Carter: Perhaps I did not phrase my question well. I was thinking, as you mentioned earlier about this independent body which would carry on in isolation, that there was the need for some umbrella body to bring these together so that each would educate the other as to what they are doing. Now they are operating more or less in isolation. That was one problem I saw. Let us tackle that first. How would you do it? Would you give the IJC authority to bring these people together, to call a meeting with them and have a joint meeting to thrash out common problems? Is that what you are suggesting?

Professor Francis: I think this would be very appropriate if the IJC is to have a responsibility for being more completely informed about what is going on in and around the Great Lakes so that it provides a forum that would function and have the right to invite representatives from various government agencies with such activities, to come and discuss them and exchange information on which issues are of importance. I think that would be an important role.

Senator Carter: Do you think you do not have that authority now?

The Chairman: The witness has said—let us be fair to him—that they are not legal authorities on behalf of the IJC; they have indicated that it has an authority but has not exercised it and that something should be done to cause them to exercise it.

Senator Carter: I cannot understand why, if this is so essential, that that cannot be done informally outside the legal framework, if the work is so basically necessary. It seems common sense that, whether you have a law or authority, it does not prevent you from inviting somebody to come and talk over common problems.

The Chairman: There are questions of budget. That would be a massive thing for the IJC to undertake.

Professor Dworsky: There is also the question of time in the development of international problems. Since the Treaty of 1909 through the 1920s, the 1930s, the 1940s and 1950s—I think we can all agree that the world is becoming more complex. What happens in one area seems to have an impact in other things. The governments of Canada and the United States are linked in a wide variety of functions. It is recognized that there are problems dealing with labour, trade, energy, water, and so on. I cannot answer as to how we ought to go about bringing all these things together.

These are major international questions. Our point is that in-so-far as the Great Lakes are concerned—as far as the integrity of the Great Lakes is involved, and the shore-lines have a very strong influence on the lakes, it does seem that we could do something more to bring human knowledge to bear on the questions in a more cohesive way without being unreasonable and without saying that everything we do has to be channelled into one arrangement.

Senator Carter: Do you think the real problem is lack of knowledge of each other, or lack of knowledge of the IJC; or is the real problem the acceptance of responsibility? Each agency is responsible and each agency is willing to accept responsibility for a certain area or a certain activity. Is that not the main problem?

Professor Dworsky: I do not know how the commissioners nor how the State Department or the External Affairs Department may feel about this, so we really cannot answer that.

Senator Carter: I am talking about these individual agencies. It boils down to this, that they are in existence for a purpose and that is the reason they are there.

Professor Dworsky: The Great Lakes Basin Commission, for example, has authority to develop a management plan for the Great Lakes, on the United States side. Yet, that is really the only thing they can do because there is no authorization to consider the Canadian Great Lakes. As soon as this is recognized the problems they identify are qualified because they are not examining the entire problem. It is as simple as that.

Senator Carter: Have you any ideas how that should be overcome—that it should be included in the treaty, specifying some relationship with other commissions, so that the IJC would have some legal framework with which to approach this subject?

Professor Dworsky: Yes, sir. We have suggested having a joint planning venture. We are not suggesting a single office; we are not suggesting a large Canadian-United States conglomerate to deal with the planning operations of the Great Lakes. We suggest there ought to be a planning agency in Canada with reference to the Great Lakes, co-ordinating with that on the United States side and maintaining an exchange of information in a better way. While there is much opportunity for internal transfer of information at the present time, I would rather see these Canadian-United States relations function under the auspices of the IJC including a study of the collective problems which exist in the Great Lakes. Specifically this is what we asked for when we appeared before the Foreign

Affairs Committee of the House of Representatives. If you do not mind, I would like to go back for a moment to our recommendation because it provides a starting point to unravel this very complicated skein. Our recommendation proposed that "the Congress, accordingly, request the President to initiate new discussions with the Government of Canada with the objective of (1) developing a joint comprehensive examination of the problems associated with the multi purpose management of the Great Lakes and associated plans." We asked that the Governments undertake this joint task because we know that if we did this as a university group, if the Great Lakes Commission did the examination as a U.S. organization or if Ontario did it for Canada, it still does not represent a joint U.S.-Canadian view. We felt that within eighteen months, or at the outside, 2 years, we could have a quick review of the existing problems. We do not have that now. We believe we ought to have a joint statement of what the problems are as a condition of developing a program to strengthen the management of the Great Lakes.

Senator Carter: Earlier in your statement you said that some of the recommendations of the IJC had not been acted on. Could you give us one or two examples. I am interested in finding out if they were rejected by both countries or whether one country was prepared to accept them but could not proceed because the other country was not willing.

Professor Dworsky: I do not have an exhaustive examination of that particular question. This is one of the research questions we want to look into. The ones I had in mind, for example, was the rejection by the two countries of the IJC recommendation for a specific treaty on water pollution in the Great Lakes as a result in 1920. It is always easy to look back, with great hindsight, but, looking back, it would have been an ideal time to deal with that difficult problem. As it is, it took us until 1972 before we again moved in that direction. That is just one example.

The example of fisheries, which pre-dated the IJC's existence, is another problem. It was only in 1955 that the countries established the International Great Lakes Fisheries Commission. And then it was only because of the critical condition caused by the sea lampreys. At test, the current arrangements represent a modest kind of coordinating venture. Senior people in the International Fisheries Commission have inferred that the arrangements are not adequate. Within the last year the International Fisheries Commission established its own committee, and that is referred to in my Great Lakes Reader to look at the interrelationships of the fisheries problems and other Great Lakes problems.

Senator Carter: You mentioned the political will. Have you made any judgment as to the political will on both sides of the boundary?

Professor Francis: We are certainly encouraged by the fact that your own committee is interested in this question, sir, as it is an important expression of Canadian interest in it. We felt the same way with regard to the congressional hearings about a year or so ago.

Professor Dworsky: Specifically, the seminar that was mounted in Montreal last June, in fact brought together some 30 skilled people to examine these questions. I think their summary, which I understand you have available, well illustrates the problems they face. The summary

ought to be "must reading" for anyone interested in the political will. That is one of the key questions the IJC seminar raised.

The Chairman: I suppose a great deal of political will is to be found in the Great Lakes Water Quality Agreement.

Professor Dworsky: Yes, sir.

Senator Cameron: Mr. Chairman, as I have listened to this discussion, it has been obvious that a good deal of interchange of ideas and dialogue takes place between the people at the technical or professional level. I wondered, as I listened to the discussion, if it would not be desirable to consider whether or not a joint conference of the people at the political level might also be a useful exercise. Would a conference on these problems between the political decision-makers of the United States and a group from Canada not be a wise idea? In other words, the technical people have done their work and they have a continuing dialogue and interchange, but I get the feeling, and I could be wrong, that there is need for a greater dialogue and greater exchange of ideas between the political decision-makers and the technical decision-makers. Is that right or not?

Professor Francis: That is an excellent idea, senator. Perhaps the Interparliamentary Group might want to take that idea up sometime.

Professor Dworsky: Questions do come up among the governments but often in the context of substantive issues, as, for example, the high water levels of the last several years. Eight or ten years ago they would have been concerned with low water levels. So they talk about the issues of the particular day. But what we are talking about deals with fundamental intergovernmental arrangements that would provide for the long term management of any issue.

The Chairman: Yes. You are not concerned with what the particular problem is right at the moment but with what it will be in the future, with what, for example, the water levels will be five years from now.

Professor Dworsky: Indeed, but from a management view, and not merely the technical characteristics.

Senator Cameron: It is a question of political decision-makers getting together, of people from both sides of the border getting together and exploring the whole policy situation and the needs for modifications and change.

Professor Dworsky: We are pleased with what has happened so far. Inside of roughly 30 months we have now had for the first time, I suspect, a hearing before the House Foreign Affairs Committee. We are, of course, very pleased to be here today. You are listening to other people too. The fact that the IJC had its own seminar is important. We understand that we may again have another hearing soon in the Congress to further discuss this question, and in that way to continue the debate. Our basic goal was to open and to continue the debate so that you people and the members of the congress can come together and to again begin to talk about the management of this very important resource, the Great Lakes. It ought not be left merely to happenstance, because they are too important to all of us. This, of course, is what our goal is and it is what we are seeking.

Senator Cameron: In other words, you would be in favour, then, of a joint conference—or whatever you

would like to call it—between the American Congress and Canadian parliamentarians on this whole problem.

Professor Dworsky: Yes, if it would lead to some sort of formalized arrangement which would set up a binational study team. There is no doubt about the credibility and capacity of the people that would carry out such a study. The problem is to get governments to agree to undertake a serious set of studies that would lead them to some decision with respect to all the points that you were raising: the strengthening within the IJC as it stands, or external to it; or a new treaty—whatever it may be. Just move in that direction.

Senator Rowe: If I may ask a supplementary, Mr. Chairman, is there any comparable situation elsewhere in the world in which two countries have the kinds of problems we experience with the United States?

Professor Dworsky: Lake Constance is an important one, I suspect.

Senator Grosart: Of course. There is the Rhine, the Danube, the Nile, the North Sea.

Professor Dworsky: La Plata is important in certain areas.

Senator Rowe: Since there are comparable situations in other parts of the world, the question is whether there are any lessons there to guide us at all.

Professor Dworsky: I have on my desk at the moment a box of reports which have come in from all over the world in response to an attempt to find out what other international groups were doing about organization for water quality. While we do not have a large amount of material, we are at the moment proceeding to the development of a report which will look at the state of affairs of other water quality problem situations.

I am in contact with the OECD. Professor Francis has been a consultant to them. They are now beginning to look at the institutional questions applicable to international water quality and related resources problems.

We think that the experience of North America—the United States, Canada and Mexico, provides a very fine basis for our effort. We do have a proposal to one of the foundations at the present time that Professor Francis and I have prepared that we hope will be funded this coming year. I might say that what we intend to do is to bring together the knowledge of Canada, the United States and Mexico about the operations of the International Joint Commission and the International Boundary and Water Commission on the U.S.-Mexican side; to bring that information into some kind of a useful whole so that the North American experience can be available in international deliberations. We simply have not done that.

Professor Francis: It is a question of considerable interest to a number of countries who have shared water bodies in one form or another. It is easy to get the impression that they actually looked forward to learning what Canada and the United States have been able to work out because they are under the impression, and rightly so, I think, that we may have fewer problems in getting sensible agreements because of our closer relationships. So if we can make more headway on the Great Lakes that would help.

Professor Dworsky: The Mexican-United States experience has been very good as well and the willingness of the two countries to co-operate, for example, on the Colorado is an extremely important event.

The Chairman: The problems on the Rio Grande have in many ways been tougher than the problems on the northern boundaries.

Senator Grosart: There is the suggestion that was made by Frederick Jordan in 1969, which you quote on page 36 of your report, where you say:

Jordan rules out the establishment of a supranational pollution control agency. Instead, he recommends that the two governments "vest the Commission with jurisdictions

And that is the word he uses:

—over all matters of boundary water and air pollution which were having transboundary effects in relation both to initiating the investigation without waiting for a reference and to coordinating the various bodies involved in the study."

I am not clear as to how that rules out the establishment of a supranational pollution agency because that seems to be exactly what you are recommending. Would you agree that these powers should be given to the IJC? Jordan is pretty specific here and very wide-ranging. Jordan is at McGill, isn't he?

Professor Dworsky: I do not know where he is right now.

Senator Cameron: He is at McGill.

Senator Grosart: Well, he is Canadian anyway.

Professor Dworsky: I think the assignment of such responsibility can do much good, depending on what the countries wish to do. I suppose that the IJC with its staffs, its files and its knowledge could be an agency of that sort Jordan describes. The problem we also pose deals with the nature of institutions. As you and the members of the committee know, institutions have their own characteristics. You also said it was a conservative organization—using the word in the proper sense—as cautious in international affairs; about not wanting to be too forward; and being careful about its assignments. This describes the nature of the IJC. Now, if you take the IJC with that history; add new members who come to it fresh; members who have probably not thought much about the subjects; and then say to them, "We are going to make you the managers of the transboundary air pollution problems of the United States and Canada and we are making you the managers of the water pollution boundaries," I suspect that unless you give them a new charter they will continue to act very much as they have acted.

Senator Grosart: Well, let us look at the words. It says, "vest the Commission with jurisdiction over all matters of boundary water and air pollution". "Vest" means to give them the authority, and "jurisdiction" is an important word there because generally it means the authority to make laws.

Professor Dworsky: At the moment I would suggest that we not move in the direction of control, and by that I mean authority to decide to enforce pollution activities on either air pollution or water pollution to another body. At least not until the current agreement runs out so that we can see how far we have come. If the current agreement which

ends in 1977 does not prove beneficial or adequate, then we will have to rethink the degree of authority that we want to provide and to whom we should provide it.

Senator Grosart: Well, the Republican congressmen—you have referred to—went considerably further. We did ask Professor Cohen if he thought it would make sense for the IJC to extend its authority to energy, and I see that this group made the recommendation that the IJC be empowered to make recommendations relating to continental development of water and energy resources.

Professor Dworsky: Well, senator, that was their recommendation.

Senator Grosart: Well, we now have two recommendations, and I think that as a committee we are going to be interested in making a recommendation. You have made a great study of this, so what is your view on that?

Professor Francis: On the question of continental water and energy?

Senator Grosart: As to the various suggestions as to the kind of authority that might be given to somebody.

Professor Francis: We have so far kept our interest directed to the Great Lakes question because that is clearly a case of shared resource.

Senator Grosart: Let us stay with the Great Lakes, which you have studied. The reason I have raised the question of energy is that the IJC already appears to have gone pretty far in recommending for example, that Ontario not use salt on its roads. What kind of authority are we going to give to this commission? The authority to recommend? Are we going to vest them with jurisdiction? I would be interested in your views on that. And I am not referring to further studies; this has been studied to death.

Professor Dworsky: We have said that we do not at the present time recommend that we vest them with authority. We clearly recommend all the things we have been saying for the last several hours in terms of how far we think they ought to be authorized to act in planning; in having the power to tell governments what they think will happen in the future; and to have a broader basis for references and some way to interlink the separate programs. These are the kinds of acting we think would be a starting point. Specifically the essential starting point we think is vital is to again, through the resolution that we have suggested, bring about another set of negotiations between the two countries including a review of the many interlinked problems and see what the countries themselves wish to do about them.

Senator Grosart: What concerns me is that all you seem to be recommending is simply more research, and I do not see anything to stop them from doing that research already.

Professor Dworsky: No, sir. What we are saying is that in the ultimate the governments are responsible.

Senator Grosart: Yes, but planning without any authority—what do you mean by planning?

Professor Dworsky: Planning tells what the problems are and what problems are likely to come up. It tells us how we might deal with them, it suggests alternatives for problem solving and it gives governments a chance to better know the options available to them.

Senator Grosart: In other words, you are talking about research.

Professor Dworsky: No, I think not.

Professor Francis: It is very practical research in that case.

Professor Dworsky: The fact of the matter is that it deals with real live problems and the essential knowledge we must have. If you call that research, that is all right, but is not research in my mind. It is the practical development of alternatives for government policy decision-making.

The Chairman: Professor Francis, do you have a comment on this?

Professor Francis: Professor Dworsky and I agree on this. You have to start with a common exploration on a wider perspective to see where it goes from here and where it comes out. We are not prepared to make definitive statements right now in terms of where power and jurisdiction should lie. This is obviously a matter for much wider consideration and debate. We just want to start the process going.

Senator Grosart: Well, I wish you were concerned—perhaps I should say I know you are concerned, but I wish your interest carried into the recommendation stage to say what should be done other than simply suggesting doing more research on the problem.

Professor Dworsky: Well the specific items we raised in what we called “the researchable items” concern questions raised by the IJC seminar. The IJC itself seems to need more information on these items in order to better understand the implications of these to organizational and operational matters. This is what we are attempting to do on what we have termed research. I would hope however, you would not use our research activities as the basis for any delay on your own part. We can assure you that at the end of our own study we do intend to be more precise about our own recommendations. But then we will have better knowledge on our own part about what we think needs to be done.

Senator Grosart: The Montreal symposium went much further than that. It came up with institutional answers.

Professor Dworsky: Did they?

Senator Grosart: Particularly in respect of the IJC.

Professor Dworsky: They posed the questions. In what way did they say what specifically needed to be done?

Senator Grosart: As I read it, it seemed to me that they posed the questions in such a way that they said that if the IJC cannot operate as that kind of authority, then something should be done. In fact, they documented a revision of the Boundary Waters Treaty Act.

Professor Dworsky: With due respect to the IJC members on both sides—and I have a high respect for them—The seminar was held in June; their report came out in August; we are now in March, and I do not know when

they will come forward with suggestions to the governments. I would like to see it come tomorrow.

The Chairman: Gentlemen, I am looking at my watch, not to rush anybody, but it is quarter to five. I do not want to make a definitive summation, because we can always go back to the record for that, but I would like our witnesses to correct me if I am wrong in my general understanding of what I think they are saying. First, you feel that the two governments, through some agency, should encourage more planning and co-ordination of plans than has taken place to date, not on water quality only, but on the linkage between water quality, pollution, water levels, fishing and other matters in the Great Lakes. Secondly, you feel that the IJC is an effective body which has done good work in the past, and it would be a suitable body to do this ongoing planning if it either would do it or were given the power to do so. Is that basically what you are saying?

Professor Dworsky: Yes, sir.

The Chairman: In other words, if the IJC now has the power, it should do it; and if it has not the power, you would like to see it given the power so that it could set up a mechanism under its direction. Senator Grosart, you used a term for some of those agencies under the IJC. What did you call them?

Senator Grosart: Spin-offs.

The Chairman: Spin-offs, or working groups. They could establish a working group under the IJC with specific responsibility for co-ordinating the planning of the various ongoing groups relative to the Great Lakes, so that when they made their recommendations, even if they did not have the force of law, they would at least have the moral force of the IJC, and it would be both governments as opposed to just one government. Is that what you are trying to say?

Professor Dworsky: Yes, sir.

Professor Francis: I think that is the appropriate direction.

The Chairman: I did not want to pre-empt your evidence at all, but I wanted to make sure that I was clear in my own mind about what direction you were asking us to go, in thinking of a recommendation.

Are there any other questions?

As there are no other questions, I thank both Professor Dworsky and Professor Francis, on your behalf, honourable senators, for coming here this afternoon. It has certainly been most helpful and useful to me. While our study is not confined just to water matters, and so on, across the boundary, it is certainly a matter on which we will wish to have either a paragraph or a chapter. If a recommendation is made, your remarks today will be of invaluable help to us. Thank you very much.

Professor Dworsky: Thank you very much.

The committee adjourned.



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THE SENATE OF CANADA

PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

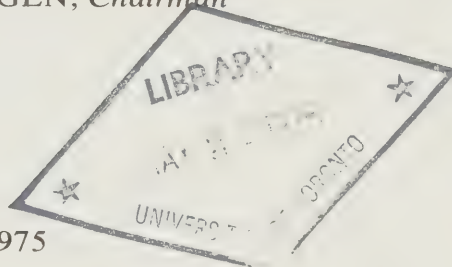
The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 11

TUESDAY, MARCH 25, 1975

Tenth Proceedings Respecting:
Canadian Relations with the United States

(Witness: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Bélisle	Laird
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	Rowe
Deschatelets	Sparrow
Hastings	Yuzyk—(20).

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, March 25, 1975
(14)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2.37 p.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Asselin, Cameron, Carter, Connolly (*Ottawa West*), Deschatelets, Flynn, Lafond, McElman, McNamara, Sparrow and Yuzyk. (12)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Honourable Jean-Luc Pepin of Ottawa, Ontario, former Minister of Industry, Trade and Commerce.

At 5.10 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 25, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 2:30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I have the very pleasant task of welcoming an old friend, Jean-Luc Pepin. He is no stranger to this committee, having appeared as a key witness for both the Pacific study and the European Community study.

Before going into politics, Mr. Pepin was Professor of Political Science at the University of Ottawa. He was first elected to the House of Commons in 1963. He held the important posts of Minister of Energy, Mines and Resources from 1966 to 1968 and Minister of Industry, Trade and Commerce from 1968 to 1972.

It was as Minister of Industry, Trade and Commerce—during those years which included the time of the restrictive Nixon measures of August 1971—that Mr. Pepin had exposure to very difficult negotiations with the United States, which might be of particular benefit to us. I think even your political opponents will agree with me when I say that your defeat in the 1972 election was an unfortunate loss for Canada.

Senator Asselin: He will come back.

The Honourable Jean-Luc Pepin: I will buy a thousand copies of this report!

The Chairman: Mr. Pepin is President of Interimco Limited, an international marketing and trading company. He also serves as coordinator of the Canadian Group of the Trilateral Commission formed in 1973. I must confess that I am not quite sure what it is and would be interested if in your remarks you would touch upon it.

Mr. Pepin, if it is agreeable that you commence now with an opening statement, Senator Asselin has agreed to lead off the questioning.

[*Translation*]

The Honourable Mr. Pepin: Thank you, Mr. Chairman. I have the bad habit of making long speeches. I will try to limit myself today.

However, I want to thank you, gentlemen, for your very flattering invitation. I am afraid I do not deserve it. It is mostly because I admire the work previously done by this Committee on the Pacific and on Europe, that I agreed to come here, in the hope of bringing a small contribution, as I did in the past at another level, this time to your analysis of Canada-U.S. relations.

It has been suggested that my remarks should focus on the mechanisms, instruments, and cooperation channels of

the relations between Canada and the U.S. First of all I would like to make two preliminary remarks.

[*Text*]

Mr. Chairman, some of the witnesses appearing before you have talked about "the special relationship" between Canada and the United States, and members of the Committee have asked a number of questions on that term. I sincerely believe that you should—and I am going to try to help you—put that term to bed!

Professor Lyon said that the "special relationship" was made up of three elements: the structural, the procedural, and what I will call the psychological—he called it something like the "plea complex." That is a very useful way of putting it. The relationship is, or was, special because structurally, procedurally, psychologically it is, or was, different from what traditionally exists between states. He then went on to suggest that we should abandon the last element. But if you do that, you will nevertheless still have a "special relationship" because the first two "special" elements will continue. It would not be very elegant to call it the "two-thirds special relationship" between Canada and the United States!

I therefore suggest that Professor Lyon's contribution is useful, intellectually, but that practically it does not solve the problem.

While I am at that, if I may, with due respect to Professor Lyon, I would like to comment also on his interpretation of the third aspect of the special relationship, the psychological one. When I read his testimony I formed the impression that, in his mind, this psychological, this "plea" aspect, was very much a Canadian thing, that the benefits of asymmetry in Canada-U.S. relations were very much one-sided, that "the begging" was usually by the Canadians and "the favouring" was usually by the Americans. I beg to disagree. I believe it was very much a two-way street. It may be that the Americans did not have to do as much open begging—it is not traditional for the big guy to do the begging, he does the pushing, or simply the asking. I would suggest also that the favours were not only to the Canadians; very often, though less ostentatiously, they were to the Americans, too. Many examples could be given. Mr. Chairman, I just wanted to caution the members of the committee, in an aside, against this interpretation of the third aspect of the special relationship which I found in Professor Lyon's analysis and which may well not have been intended. In a word, I wanted to say that, in my view, even the psychology was special both ways.

Now for my own contribution. May I suggest that the words "special relationship" have now become a term of history and should be relegated to that status. We should not use them any more to describe anything present or future. In other words, "special relationship" corresponds to certain types of relationships, with advantages and

disadvantages to both sides, which existed between Canada and the United States at a specific time in history, say between the second world war and 1970, or slightly earlier. Since then, in the late sixties and early seventies, different "perceptions"—a popular word these days—have emerged corresponding to a different set of circumstances, national and international, in both countries: a different age in the history of Canada and a different conjuncture in the history of the United States. These changes call for somewhat different types of relationships which are emerging now, "more mature," as Secretary Connolly wanted it, probably also slightly more "conventional," rather more "classic" in terms of standard relationships between sovereign countries.

I think it would be useful, I repeat, if we were now to use the words "special relationship" as descriptive of an historical period and not as descriptive of present day relations, even if they are or were to remain rather . . . special!

What will the coming relationship be? Personally, I do not think it will be so very different from that of the previous phase of history because of all of the "objective factors of common interest" that I and many others have referred to in our speeches, because of the very "quantity" of relations that unavoidably and fortunately in most cases exist between the two countries. I think the relationship will be more symmetrical both ways, will probably be less, say, sentimental, more down to earth.

I am not sure, and nobody can be sure, of what in specifics the relationship is going to be. Will the Autopact be amended? Will United States investments continue to grow or will they level off? The details will be influenced by events. An economic crisis, or a world war, something very dramatic like that, might alter the present trend considerably. Mr. Trudeau's suggestion of a "contractual link" between Canada and Europe, if it should be accepted, would have a direct influence on the nature of the relationship between Canada and the United States. Again, it is very difficult to predict in detailed form what the relationship will be in five or ten years from now; it is in the process of adjustment. We should honestly recognize that. We can only deal at this time, as I have, in generalities, in moods.

What will we call what is emerging now in Canadian-American affairs? I have suggested that we stop using the word "special" because what is developing now will be somewhat different, more or less, from what existed between, say, 1941 and, say, 1970. The other day I was listening to a senior American official who kept referring to "unique". When I do not know what to call something that is different from anything else, I call it *sui generis*. The Canada-U.S. relationship is and will be *sui generis*! Call it unique if you want. I am only suggesting that the tag future historians, and politicians, will use to describe it does not exist yet. Maybe one of these days, in a brilliant speech, one of you will use a certain term that will be retained. It is too bad that the words "good neighbour" have already been appropriated by history to describe another situation; they would have been good ones. We will need a word, and I suggest, with my usual smile, that the Senate should organize a contest of some kind and give a prize—a trip to the United States!—for the best "tag". Maybe "the new relationship" would win for the time being.

My second general observation is also banale but may be useful. It has to do with the inevitability of conflicts. In

your search, in our search, for improvement of channels of communication between the two countries, let us always bear in mind the inevitability of conflicts. In human relations—and I do not have to tell you, most of you have marriage and parental relations—conflicts of interest, shocks, irritants, are the bread and butter of life. The same applies to diplomatic affairs, to relationships between states.

There is a beautiful line from C. D. Howe which I have been repeating for years. The former Minister of Trade is quoted as saying; "When ambassadors come to see me, they always start the conversation by stating that the relationships between Canada and their country are good and peaceful." To that C. D. Howe would reply, "We are in trouble, aren't we?" The implication was that there was peace because there were no or few relationships!

The moment you have a great diversity and quantity of exchanges between countries, you are bound to have conflicts. We must be sophisticated enough in our analysis of international affairs to expect confrontations. I did not say to welcome them; I said to expect them and to tackle them when they come, as they are bound to. The fact that conflicts arise is not necessarily an indication of an unfriendly disposition of either side.

"Perceptions" in countries keep changing and they are now changing more and more rapidly. Let me give you some examples. The perception that Canadians have of the desirability of foreign investment has been changing substantially. I think that most Canadians, while recognizing the usefulness of it, want to have it in a different form. This is a change in the Canadian perception which is bound to affect the relationship between Canada and the United States. What is wrong with that?

The same with respect to trade. The fact that so much of our trade is with the United States, about 70 per cent both ways, preoccupies a greater number of Canadians. In the past we have talked about diversification. We have talked about the need of having "more baskets". It may be that Canadians are now about to accept the idea that something has to be done about, in a positive way, which would necessitate changes in our trading mechanisms. In 1972, senators wrote an excellent report on the Pacific Rim, where you said that Canada should look at trading corporations, that they were instruments of trade which had not been used by Canada traditionally but which might be useful to us. By the way, I am running with that ball now!

Another example of changing perceptions. Senator McNamara will remember that one day he and I took part in a Washington conference on grains. My recollection is that at the time the Americans were trying to reduce the price of wheat to the price of feed. This was not something we contemplated gladly! My impression is that Canada is now trying to raise the price of feed to the price of wheat. Obviously, circumstances have changed in international agriculture. I am just making the point that there is nothing static in the way peoples and states view or perceive their interests and relate them to the interests of others.

American perceptions have also changed tremendously in recent years. Their perceptions on energy, for example, have changed. I recall, not with great pleasure, one day in a room at the Queen Elizabeth Hotel in Montreal trying to convince American negotiators to buy more oil from Canada. They were insisting on controls and quotas. The truths of those times are not the truths of today. American views on energy have obviously changed very much.

American views on the Law of the Sea are changing at this moment. Traditionally, the United States has taken the standard positions of a great Maritime power in these matters, protecting worldwide interests. Now they are realizing that as a coastal power they too have very precise interests in coastal waters to protect. Had the Canadian government accepted the views of the United States three or five years ago, without debate, without conflict, it would not have been particularly clever in the first place and it would not have helped them to come to accept slightly different ideas either.

I am just making the case that sometimes you have to stand up and say, "I disagree." Canada did not accept the United States policy on China, fortunately. We did not accept their position on Cuba either. We do not accept all their views today on matters of foreign ownership and extraterritoriality.

Senator Connolly: They also may be coming around to our view.

Hon. Mr. Pepin: Agreed. So, again, my plea is for the recognition of the inevitability of objections, irritations, conflicts, diversity of perceptions, and whatnot both ways.

I could also say that Canada, by opposing them, has contributed in recent years to changes in the perceptions that Americans have had of their destiny. China is one case only, and vice versa too.

Notwithstanding the number of "lubricants", to speak like the Canadian Secretary of State for External Affairs, we are bound to have irritants.

How should we treat these clashes of perceptions? Was I right, as Minister of Industry, Trade and Commerce, in not going to Cuba? Should Canada have let the *Manhattan* go through Arctic waters freely? Should we have reacted differently to the August 1971, 10 per cent surcharge? There is no bible to lead you through these difficulties. It is strictly a matter of judgment and timing as to how you behave on these occasions.

As you know, I am a rather quiet fellow. I believe that one of the main rules that politicians should apply in these matters is to avoid the temptation of immediate success. That is a great temptation.

These were the two points I wanted to make: the first on how to use the term "special relationship"; and the other on the inevitability and even the creativity of conflicts when properly dealt with.

Now a few short remarks on channels of communication between Canada and the United States. I am not going to recite all of the existing channels because you know them as well if not better than I do. I have just three or four ideas to submit.

The first one is that we should use all available channels, all available "lubricants" for better consultation, co-operation, education. That is motherhood, and I do not think anybody would disagree with it.

Secondly, we should also try to resist "escalation". We should try to resist tackling problems at the highest possible "level". As a rule that is wrong. Mind you, at times it takes a lot of intelligence and will on the part of political leaders to resist that temptation. How many times in recent years has the press said, "The Prime Minister should go down to Washington and settle this or that matter"? How many times have they said, "The Minister of Industry, Trade and Commerce, or the Minister of Finance,

should go down and solve the problem"? That temptation should be resisted because problems have a way of clarifying themselves on the way up that invisible ladder.

Thirdly, we should use the private sector more extensively than we have. A lot more attention should be paid to institutions dedicated, in whole or in part, to the improvement of good relations between Canada and the United States, like, for example, the Canadian Institute of International Affairs and the Canadian-American Committee. These institutions are performing an important role, a role which could be improved, given more support from the private and public sectors.

At the last meeting of the Canadian-American Committee last week it was decided that from now on the committee will produce backgrounders to Canadian-American issues more often. One on the beef situation was issued recently. It tries to rationalize the situation, tries to bring out the facts before public opinion. Another backgrounder on balance of payments problems is also available.

Senator Connolly: They have done quite a bit of this over the years. That is good.

Hon. Mr. Pepin: At the last meeting it was said that the committee's wisdom tended to come too late. Members of the committee are going to try to be more timely. They are going to try to bring these backgrounders out at the time of the conflict rather than after.

Senator Connolly: We hope to have some of these people come before this committee, Mr. Pepin. I think they would be very useful people for us to hear from.

Hon. Mr. Pepin: The last meeting was an excellent one. Again, that kind of group is playing an important role, but they realize that they have to be more timely. If they have something to say, they have to say it at the time of the event, not three months or three years after, with hindsight. These gentlemen are busy in their own professions and, consequently, there are limitations to what they can accomplish.

My fourth point. Another idea, often expressed in discussing Canadian-American relations, is that officials and diplomats should be used in the negotiations instead of politicians. I want to say a few words on that. There is a sort of nostalgia around the good old days when officials would go down to Washington or come up to Ottawa, rationalize the whole thing, solve the conflict and, if not, agree to study it further. The good old days when accidents were really accidental. There may be a bit of rewriting of history here, a bit of greening of the special relationship! But I do not disagree with the idea that first you go through "the proper channels", the "proper channels" being not to use the minister or the Prime Minister in the first round; the "proper channels" being to try to elucidate and, if possible, resolve the conflict at the lowest functional level. If the head of a branch of a department can get together with his counterpart in the United States, so much the better.

But when considering these things, one has to take into account that the practices of government have changed. First, it is difficult to keep things secret today, even when they are dealt with by officials. If Simon Reisman goes to Washington he can hardly remain invisible! Secrecy in these matters is becoming more and more difficult. Secondly, democratic government, as it is more and more understood, demands that these issues be tackled by elected representatives. The politicians cannot always say, as

they may have been able to in the past, "I have sent my official." I am only stating a fact. I remember when I was minister, appearing before the committees of Parliament, members would often say, "We don't want to hear from the officials; we want to hear from the minister. How does he feel about it? What does he think? What has he done? Has he talked to his counterpart in the United States?" It has become more and more difficult, it seems to me, for the politician, in view of this change in atmosphere, to rely on his officials as much as he possibly did in the past, for better or for worse. The public, members of Parliament, the press, keep him accountable, not only for the results but even for the ways results are reached.

Now when politicians are involved, it is almost impossible for them to operate in secret. I am told—and you might check on it, Mr. Chairman—that the Secretaries of the United States Executive must publish an agenda of the visitors they see each day. Even if the Canadian minister wanted to keep his visit secret, or even discreet, he could hardly do so.

Canadian politicians are particularly subject to public scrutiny and pressures. Philip Tresize, former United States State Department Under-Secretary, in a recent interview in which I appeared with him, said that Canadian politicians were operating under much greater public pressure than the American politicians who deal in Canada-United States matters, simply because issues are of much greater importance to Canadians than they are to Americans. Of course he is right. I can assure you that it is not easy to deal, for example, with a request for changes in the Autopact with half of the Canadian population saying it should not be changed and the other half saying that we should come to terms with the United States Government—especially when an election is coming!

May I now put to myself a few questions that you may ask me? You may add others.

Should these relations between American and Canadian politicians be personalized; should we have "I call him John and he calls me Jean-Luc" type of relations? En français on dirait être à tu et à toi. There is obvious advantage to that in terms of access, receptivity to arguments. There are some dangers, too, that you can easily imagine. The desire to be liked can affect one's judgment to a certain degree and, also, there may be some misunderstanding created by the quality of the smile or the warmth of the reception. But the chances for that kind of personalization of relations are not so great. First of all, Ministers and Secretaries do not meet so often. The Joint Committee on Trade and Economic Affairs has not met since 1969, if my memory is right. Occasions to "fraternize" really do not come very often.

It is known that John Turner has had some friendly personal relationships with Secretary Schultz and, it appears, with Secretary Simon. You will observe that the friendship was brought about mainly by the number of meetings these gentlemen have attended at the international multilateral level, held in recent months on the monetary problems. I am dealing in nuances!

Another detail I might put on the record, for those interested in minutia, is that it is much more difficult for the Minister of Industry, Trade and Commerce of Canada to strike friendly personal relations in the United States administration simply because he has no single counterpart in the United States Executive structure. If he wanted to do that, he would have to charm the Secretary of Commerce—as you know, the Commerce Department in

the United States is quite different from the Department of Industry, Trade and Commerce in Canada; he would have to charm the Secretary of Agriculture, the Secretary of the Treasury, the Secretary of State and probably also the Secretary of the Interior. Quite a job! He would have to have a nice cottage in the Rockies or in the Laurentians to entertain all of these people on a personal basis, if he was so inclined—and a very safe riding!

Another reason why such personalized relationships between politicians across the border are difficult is due to the decision-making process in Canada. Cabinet approval here is a real thing. I hope other people will tell you of that. You don't go down to the United States as Minister of Energy, Mines and Resources, or as Minister of Industry, Trade and Commerce, simply with your own baggage of views. You have to reconcile these views with the views of your Cabinet colleagues before you go. I agree entirely with this system, of course; but it does reduce your margin of originality! There is consequently a certain depersonalization of views simply because of the way the Canadian government operates.

It may not be so to the same extent in the United States because there, I think, in a presidential system, you have more limited coordination. This has been observed a number of times. In 1971, for example, if Secretary Connally and President Nixon agreed on something, that was good enough. They may not even have agreed entirely on anything! The Secretary of Commerce may well not have been consulted at all. Cabinet members in Canada do not have the same freedom of operation. Consequently the fact that their views have to be reconciled with the views of so many other people, as I say, cramps their "style" to a great extent.

Politicians should try to avoid creating antagonism. As Tresize says, the bad relations at the top permeate the lower ranks. But I doubt very much if calling each other "John" and "Peter" really makes a great difference in the quality of the relationship. Respect is more important.

You have asked yourself a number of questions about "summit meetings." From what I have said, I am quite sure you can anticipate what I am going to say: they should not be abused.

The Chairman: Just to interject, when you say "summit meetings," do you include in that joint ministerial meetings?

Hon. Mr. Pepin: Yes. I included all types, but I was referring particularly to summit meetings between the "numbers one" on both sides. -

Senator Asselin: The Prime Minister and the President.

Hon. Mr. Pepin: Yes. The Prime Minister has rightly resisted the temptations often handed to him by the Canadian public and media.

In the one-to-one relationship question, at the ministerial level, even in matters coming under their competence, it is dangerous for ministers to fly down or grab the telephone, unless they have rehearsed their call or speak from notes and take notes. This, again, does not lead to great originality. You realize that I am conservative in these matters. Other ministers, past or present, will take more grandiose positions.

I must say that I too have succumbed to the temptation of, call it, personal diplomacy, in July 1972. I then met with Secretary Schultz, in what was a one-to-one, exclusive, no

secretary, no adviser, meeting. I cannot well recall why, but it seems that I was the one who suggested that meeting. Obviously, I must have been a bit afraid of the consequences because the first thing I did when I came back was to write a report about what went on to make sure that my colleagues would or could know. It was a day or two after and I entitled my report, "Recollections." This title in itself is a good indication of the danger of these exercises: even one day after you tend to recollect what you want to recollect; you quite naturally tend to deform or bias what went on in favour of your own ego!

Mr. Tresize believes that the coordination is usually done quite well in Canada with the Prime Minister and the Secretary of State for External Affairs playing a key role. Let's be frank. That role is contested once in a while. I accepted it and if I ever contested it in practice I apologize. Contesting the coordinating role of the Secretary of State for External Affairs, in particular, is not a good way to run a railway. This being said, there is obviously some rivalry between individuals and between departments. That is inevitable. The pecking order is important in any civilization. In my view, we do not have as much of it here as they may have down south and in other countries of the world.

Now, what about the Joint Ministerial Committee on Trade and Economic Affairs, and similar bodies? Before saying that they are good or bad, one should ask oneself what they are meant to do. As I understand it, the purpose of the committee is to exchange information and views. It is not a decision-making instrument. Hence I think it can be extremely useful to review, clarify issues, define points of view, take the total look. I would add a dimension: that committee, that type of meeting, is extremely useful for new ministers, the fellows who have been appointed a few weeks before. It gives them a look at the forest, and at the trees. As the present rate of survival is rather low among ministers, particularly in the United States—I was reading an article the other day that said the survival period of Secretaries in the Nixon Administration was 18 months—this type of meeting is particularly useful in these circumstances.

I agree that there are difficulties. They should not be forced. There is the question of available time. You have asked some of those who have appeared before you what they thought, on balance. Well, on balance, I think such joint ministerial meetings should be held whenever possible. One should not make it an article of religious creed. I might suggest that in view of the fact that Canadian Ministers and U.S. Secretaries are often tired, if not exhausted, work and recreation might be combined. Meetings might be held occasionally in the countryside.

My last point is on the "one-by-one" different from the "one-to-one" game. Should problems be tackled single file or in battalion? Here again, it is difficult to be theoretical. I remember when I was a student I read a brilliant essay by Jacques Maritain on "The Choice of Means." Means are, by essence, very relative. Relative is then the question of whether we should have more one-by-one or more package deals. By the way, the one in the one-by-one can be rather large; for example, if the one is trade or energy.

Historically Canadian negotiators have preferred the one-by-one approach or technique. The reason for that is well known. It is that the weight of the other party will be less if the surface is narrower! Unfortunately, that rule defies the laws of physics: in physics the weight is not less, even if the surface is narrower. I am 180 pounds heavy, or light, whatever the size of the scale!

In fact, when Ministers and Secretaries meet, they may be focusing, for the sake of efficiency, on one sector of Canada-United States relationships, but they have the whole picture in mind. It is like "la ligne bleue des Vosges"; you do not necessarily talk about it, but you think about it. The great debate between one-by-one linkages or packages may be overplayed. One-by-one or packages is finally a matter of practical convenience. In 1971 Canada was quite willing to look at "a package of irritants" with the Nixon-Connally Administration, but insisted that this package be "balanced." Secretary Connally insisted that it should be a set of unilateral concessions, the balancing having been done in the past, Canada having received favours in the past!

Again, one-by-one or packages is strictly a question of choice of means, subject to the law of relativity to the greatest extent, matters of prudence only. The objective being there, the way you go at it is really a matter of circumstances, a matter of personalities, a matter of expediency, and not much more. Do not write a code in your report.

Having mentioned the name Connally, you might want to question me on that subject! I suspect that you will.

The Chairman: Mr. Pepin, I want to thank you for your very outspoken and thoughtful opening remarks. I will go immediately to Senator Asselin to commence the questioning.

[Translation]

Senator Asselin: It is now my turn, Mr. Pepin, to congratulate you for what I could call an avant-garde submission. I think Mr. Pepin is less conservative than he thinks. I must say that Mr. Pepin, when he was Minister of Industry, Trade and Commerce, has left a very good memory among our parliamentarians. I think he has been one of the best ministers of Industry, Trade and Commerce Canada has ever known, and for the dedication he has shown when he was Minister, I think parliamentarians as a whole, either from the Senate or the House of Commons, owe him a lot regarding relations between Canada and the United States.

Hon. Mr. Pepin: Thank you.

Senator Asselin: I have followed Mr. Pepin attentively; as I said at the beginning, I think his submission was very much avant-garde.

The question you have asked at the beginning, according to the ideas he has asserted in the beginning, which may be subject to criticism, if you wish, to the effect that the relations between Canada and the United States should or should not be handled within an institutional organization, since relations between Canada and the United States are certainly not the same as with other countries? We know we have relations at the ministerial level, you have also said, that we have organizations at the level of officials. Mr. Pepin I would like to know which is the closest channel when an important decision has to be made? Personally, I do not think a meeting between a president and a prime minister of Canada can settle immediately the disagreements, but at what level are the decisions made? Is my question clear enough?

Hon. Mr. Pepin: Yes. By constitution, I am rather an institutionalist; I like to see things in their settings.

But the other part of my constitution makes me add right now the following qualification: as long as it is useful, as long as it can serve useful purposes, not only for the sake of creating institutions. If such and such institution becomes obsolete, I say to myself it probably had fulfilled its role. I shed no tears. As I said in my presentation, these are only questions of choice of means.

However, senator Asselin, you rather directed your question towards the reality of power. You asked where the reality of power stood in Canada-U.S. relations. What could I say on that?

An observation. In the United States, power is much more fluid; it is much more "circulatory" than in Canada. I have sometimes said, while somewhat exaggerating, of course, that the main role of the Canadian embassy in Washington was to say to the Canadian Government where was the power located at a given hour of a given day in Washington. The information I have in hand show that at the present time this is the case even more than ever. In other words, the power circulates in the United States. From the President to his best men, the different Secretaries, the high officials, and then to para-governmental agencies, etc. There is a sizeable competition out there for the exercising of power—once, on the energy issue, for example, people wondered—I will give no names—whether it was such and such person close to the President, or the Home Secretary or the Secretary of State or somebody else who really held the power on this issue.

Since the political system is different in Canada, power "circulates" less. I do not mean to say that it does not "circulate" at all, on the contrary, it "circulates", but to a lesser degree.

Senator Deschatelets: It is more centralized.

Hon. Mr. Pepin: It tends to be linked to the title of the person rather than to the individual himself. For instance, unless such or such a minister is really very weak, he will use the powers attached to his Department. Unless the Minister of Energy, Mines and Resources is really very weak, he will wield the responsibilities of the Department of Energy, Mines and Resources.

I do not wish to give the impression of statism. Dynamism is present in these things, but, once again, I feel there is much less here than in the United States.

Here is another aspect of this problem of the reality of power: The relation between the minister and his officials. They also vary quite a bit. You have ministers who have a tendency to be their own deputy minister; it is a known fact. You also may have deputy ministers who have a tendency to wield the Minister's power. To my knowledge, the latter occurs in very few instances. But as you are very well aware, the relation between the Minister and the deputy minister is of an extraordinary psychological complexity, more complicated than marriage, and by far! Today, in Canada, the senior official still plays a very important role. However, I think one can say that the general trend in Canada is towards the reinforcement of the minister's role. That being said, each situation is a special case.

In the United States, the situation is very different since the three or four senior "levels" of the administration are occupied by "politicized" persons; some under-secretaries may have more real power than the secretary.

Senator Asselin: You have said that conflicts were inevitable, but that it was necessary to get to grips with

them and study them. Since our relations must be different with the United States, and I repeat it once again, than those between Canada and other countries, and that certain conflicts greatly influence what happens in both countries, could you indicate some mechanisms that could prevent these conflicts?

Hon. Mr. Pepin: No, I see no others than those presently in existence. However, I have suggested that we put existing channels to better use in order to anticipate and solve conflicts.

The joint committee of ministers on trade and other economic affairs is one of these medias that indeed can, in an atmosphere of generosity and intelligence, devote itself to anticipating conflicts between Canada and the United States. But if, for instance, you have in mind a special deputy minister's committee for the purpose of anticipating problems, I would have to say at first sight that I do not agree. I think that it is by way of all existing channels, public and private, that the work of anticipation will best be done.

In that respect, I am ready to admit that Canadian ministers have often been neglectful. I was. I am giving you an example: it was only during the crisis in 1971 that I had the excellent idea to go speak more often before American audiences.

Senator Asselin: During the surtax?

Hon. Mr. Pepin: Yes, I went to Los Angeles, to Houston, to Chicago. I had done it before, but not often enough. I think that the Minister of Energy, Mines and Resources for example and the Minister of Industry and Commerce and others, also should speak to executives, educators and farmers in the United States much more often than I did it myself at the time.

I am also thinking of these organizations in the private sector of which I spoke in my opening statement. Politicians should pay closer attention to what is said there, to what is written, to the resolutions that are carried. For my part, I am guilty of not having done it enough.

Senator Asselin: I would like to recall your experience with the automobile pact. Unless I am wrong, Mr. Sharp presented his option, his third option and at that time he told us it was important to advise Canada to reach an exclusive agreement instead of those we had under the automobile pact between Canada and the United States. In your experience, in your relationship with the United States, would you advise to go into other sectors for special arrangements?

Hon. Mr. Pepin: In fact, you are talking about the problem of free exchange. Very often, when I was Minister of Industry and Commerce, I would ask the same questions to my officials or to industrials: are there any other sectors, in your bilateral relationships with the United States where agreements similar to that of the automobile could be reached? I was answered that the number of sectors is limited, that some are already *de facto* free exchange sectors such as that of farm equipment; such as in some ways, that of computers.

Senator Asselin: You are speaking from your own experience?

Hon. Mr. Pepin: In that area, the experience I have had,—I call it very simply,—the experience I have had in

discussions with American politicians is the following: first of all they said: the automobile agreement has been too profitable for Canada and they asked for changes to readjust the balance. Secondly, they said: we should have other agreements like that of the automobile. At that time, my judgment suffered. The conclusion would be that agreements of free exchange are valid inasmuch as they are acceptable for the United States.

This attitude has contributed to a large extent to the failure of the negotiations in August of 1971. Mr. Connolly said that the automobile pact should be amended so as to have the terms of the equation strictly symmetrical so as to also bring about balance in the commercial balance of the automobile. However, you know that since then, the scales are leaning the other way, and today they favour the United States at the rate of one billion dollars.

But, once again, what I retain from these events, these discussions, is that in 1971, we were asked, because the automobile pact had had effects that were judged too beneficial for Canada, we were asked at that time to rebalance the system. I think that this should incite us to be cautious to a certain extent when we are speaking of free exchange with the United States.

Senator Asselin: I have many other questions, Mr. Chairman, but since I have just had a first turn, if I have the opportunity of speaking again, I will do so. However, I would like to mention one rather peculiar point.

I would like Mr. Pepin to tell us if, when he was a Minister, he often consulted the provinces as far as our commercial exchanges with the United States were concerned? We know that our provinces are often meeting Canadian consulates in the United States or trying to have contacts with American authorities to discuss commercial exchanges they have with the United States.

I would like to know if, in his Department, when he was Minister of Commerce, there was co-ordination between the provinces and his Department concerning these exchanges between the provinces and the United States? Were the provinces consulted? Were there meetings between the representatives of the Department of Commerce and the provinces? What were the channels, the means of communication of the provinces with American authorities? Did they deal directly with them? Or did they go through your Department?

Hon. Mr. Pepin: This matter comes within a larger context that I want to recall, that of the relations between the central government of Canada and the provincial government in international matters. The phenomenon of the division of powers in a federal state creates that problem. It cannot be denied that international relations in Canada come essentially under the central jurisdiction, but, on the other hand, since the provinces have some jurisdiction in the international sector, they must be consulted. Many efforts have been made in the last few years to try to establish a *modus vivendi*.

Senator Asselin: The provinces are not satisfied.

Hon. Mr. Pepin: This is true. Please let me get more personal.

Senator Asselin: Yes.

Hon. Mr. Pepin: I tried, on my part, in many ways to better consult provinces individually and collectively on these matters. I have also often asked officials to do so. At

the departmental level, when I was there, a federal-provincial conference of ministers of commerce started to take shape. Mr. Sharp had already done it, if I recall correctly, in the sector of tourism. Mr. Gillespie has recently gotten together the ministers of commerce both at provincial and federal levels. In the middle of 1972, I think, a meeting took place between the provincial ministers of Trade and myself, in fact on the problems at that time in our relations with the United States. I remember it. We set out the status of these questions, and we asked the provinces to give their views.

A few weeks later, the Prime Minister of Ontario, complained officially that I had not consulted the Ontario Government, in connection with the Auto Pact. Yet, I remember distinctly meeting personally Mr. Davis and some of his ministers, the Minister of Industry in particular, to discuss the future of the Auto Pact. I remember distinctly, that throughout the conflict of the "irritants" an official of the Ontario Department of Industry and Tourism came frequently to meet officials of the Federal Department of Industry, Trade and Commerce to gather information on the progress of relations between the United States and Canada in connection with the Auto Pact.

[Text]

Senator Connolly: Before the pact was signed?

Hon. Mr. Pepin: I wasn't alive politically at the time.

Senator Connolly: All right.

Hon. Mr. Pepin: During the very acute difficulties between Canada and the United States regarding the Auto-pact in 1971—

Senator Connolly: Fine.

[Translation]

Hon. Mr. Pepin: I am ready to recognize that consultation between the federal government and the provinces, on matters of foreign trade, could have been still more intimate. However, I will add that eventually, in spite of all the efforts which may be used, they will never succeed in solving these problems of federal-provincial relations in a way acceptable to everybody. Why? Because, in many cases at least, there are conflicts of interest between the provinces! It is obvious that, if a policy adopted by the Federal Government in a conflict of interests between Canada and the United States, is interpreted, say by the West as favourable to the East or vice versa, apart from the number of consultations, there will be discontent.

All that to say, and I have given only some examples, efforts have been made and continue to be made, in order to establish bridges which are strong enough. There is always room for improvements in these matters. It is unlikely that in spite of all the efforts, they will never be able to reconcile all the interests of the provinces and of the regions of Canada because, sometimes they are conflicting.

[Text]

Senator Asselin: I will give my colleagues an opportunity for questions.

The Chairman: Thank you, Senator Asselin.

Senator Carter: I would like to continue with the same line of questioning concerning the Autopact. The Autopact came into being mainly because of our balance of payment deficit; a large proportion of our deficit was in the automobile industry. I am expressing an opinion now, but after we had gotten into it, it did not seem to be perhaps a very good model that could be applied in other sectors because it affected one industry and it also affected only one province, the province of Ontario. I would like to know the witness' opinion, Mr. Chairman, as to how far that model lends itself to other sectors.

Hon. Mr. Pepin: That is a big one! First of all, I think you mean the balance of trade in automobiles.

Senator Carter: Yes. That is the reason for it, in the first place.

Hon. Mr. Pepin: At that time, around 1964-65, Canada had a choice, of course; there were other avenues that could have been followed. But negotiations took place between Canada and the United States, common interests prevailed, and the Autopact was signed. The Autopact is not, by the way, a free trade agreement *stricto sensu*. It is a "conditional free trade agreement." When Mr. Connally was debating these things in 1971, he really wanted to eliminate "the conditioning", which conditioning the Canadians considered to be part and parcel of the agreement, which conditioning by then had become irrelevant in the minds of many people, but which conditioning might hypothetically become relevant again if developments were to take place to make it so. You can imagine how complicated the conversation was. But it was more than symbols.

Mr. Connally was really quite absolute. He wanted the elimination of all the so-called "safeguards." At least, I must be totally frank, that is the way I heard him. Our interpretation of Mr. Connally's desire was that he wanted to make the conditional Autopact into a total and unconditional free trade arrangement.

One of the consequences of this would have been the elimination of the well-known "safeguards", but also the elimination of the manufacturers' privilege. You know what that is. That elimination would have meant that any Canadian citizen would have been entitled to go down to the United States to purchase an automobile. I am a bit of a gambler at times—with my own money! I did not think that this could be accepted and automobile dealers from the east coast to the west coast of Canada seemed to agree.

The question you then ask is: Could other autopacts be signed? I think I have answered that. The field appears to be limited. That is the opinion I received at the time. You try textiles, you try footwear, you try a number of these industrial sectors, and you find that free trade areas might bring about fantastic problems for Canadian manufacturers. Just think of the marketing of beef as an illustration of changes taking place to the south, which have an immediate, direct, destructive effect on what happens north.

This is why the formula of sectorial free trade has great limitations. What we have to ask ourselves is, really, are we willing to go free trade all the way, or not. I may be unnecessarily unsophisticated when I say this, but to me this is the way the question should be posed. The multiplication of bilateral conditional or unconditional sectorial free trade areas is a bit of a crazy exercise to get involved

in, unless the final objective is overall free trade between Canada and the United States.

We are going to read the report that the Economic Council is going to issue in a few weeks. I am most curious to know what it is going to say. But, personally, subject to change of mind if the weight of evidence is conclusive, I am against global free trade, mostly for political reasons.

I don't read history the same way as Professor Lyon reads it. In my book, from the Greek "amphictionies"—some of you might remember them from law studies—to the Treaty of Rome, free trade goes hand in hand with custom union, both together leading to political integration. It is as simple as that. It is a logical conclusion, because each party in the free trade area wants to be part of the decision-making process, and if the decision is going to be influenced mostly by the bigger or biggest party, the smaller or smallest wants to be part of it, and that is why, politically, they have to be joined somehow. That is why the declared final objective of European integration is political integration. The Treaty of Rome says so. If one accepts that objective, one then accepts the creations of the common instruments which quite naturally lead to that conclusion. I do not accept the conclusion, so consequently I do not accept the premises. But that is a personal reasoning, and I can understand that other people might make a different one.

I happen to believe that the existence of a Canada politically, culturally, economically different from the United States is a wonderful adventure. I think that the adventure should be pursued, at least as far and as long as demonstrated viable. If not, then obviously we will have to adjust our sets. By the way, I believe Canadians are not really trying hard enough.

The Chairman: I might interject here, Senator Carter, to say that it would certainly be my hope that the committee will have Mr. Pepin back and that he will agree to come back at the time we get into a study of trade, which we will be switching gears into, possibly as soon as six weeks from now, which, fortuitously, is going to fall on the heels of the Economic Council of Canada Report. We can then go much more deeply into this subject with you.

Senator Carter: I have one more aspect of the Autopact that I would like Mr. Pepin to comment on, and that is the opposing attitudes of labour in the two countries. Canadian labour was pressing for no change; American labour wanted change; so there was a conflict of interest in the labour movement as between the two countries. I would like to hear your comments on this.

Hon. Mr. Pepin: At the last Canadian-American committee meeting last week, a distinguished gentlemen representing the United Automobile Workers of America came to give a speech on the Autopact. I must say that my blood was 120 degrees hot because he said that there was no disagreement as to the way the automobile workers in the United States and Canada see that Autopact. I beg to disagree. Quite naturally they were and are in opposition.

He said the automobile workers of Canada want the disappearance of the 7 per cent price gap. They want an annual report on the effects of the pact. I beg to say, for completely different reasons than the reasons the United Automobile Workers of the United States want the same to happen. That is not shocking; that is quite normal.

You are quite right, I believe, when you say that during the 1971-72 debate on these matters the Canadian United

Automobile Workers were for no change. I must add, Senator Carter, that they were for no change unless the change would make the agreement more favourable to Canada. I think that what Ed Broadbent M.P. said at that time is historical record: "The safeguards are inadequate; bring in better ones." This was not exactly what the Americans had in mind, including the United Automobile Workers.

Senator Carter: I would like you to elaborate on a statement you made earlier when you said you think we should use the private sector more. What did you mean by that?

Hon. Mr. Pepin: I meant the sort of thing you have been talking about, for example, with Rufus Smith, the institutes of Canadian studies in American universities, the groups of businessmen like the Canadian-American committee.

Senator Carter: I misunderstood you. I thought you were talking of the private sector.

Hon. Mr. Pepin: I also meant the private business sector. There are, for example, many associations that have joint Canada-U.S. membership. So many American organizations come to meet in Canada and many Canadians go to meet within professional associations in the United States. We should make use of these "channels" more systematically than we have in the past. Members of Parliament, senators, distinguished backbenchers of the house should accept these invitations and should even ask for them in order to express Canadian views.

Occasionally this is done. Robert Caplan, M.P., for one, went to speak in the United States on a number of occasions around 1971-72. Other parliamentarians I am sure also do it but it should be done in a much more substantial, much more systematic way because these are very useful and important channels of communication and education. Some of the witnesses you have had, the Americans in particular, talk about the incredible ignorance in the American public with respect to Canadian affairs. This is tragic, isn't it? But have we, Canadians, not done as much as we should to correct that situation?

The Chairman: Thank you, Senator Carter. Are you finished for the moment?

Senator Carter: Yes, I can come back if there is time.

The Chairman: I might just interject that the Canada-U.S. Interparliamentary Group has been reinstituted. I shouldn't really say reinstituted, but because of a minority government and the elections it has not met in a few years, but there is a meeting in April this year.

I am glad to hear our witness support the concept of interparliamentary exchanges because I think there is sometimes a feeling, and I know the civil service tend to downgrade the concept and the Cabinet does not necessarily seem enthusiastic about it. But the few that I have been on have convinced me, Mr. Pepin, that there is a place for them because the civil servants are inhibited to discuss in a certain fashion the mechanical matters. The Cabinet ministers speak for the government and, therefore, have to be guarded. The parliamentary groups can exchange views very frankly as politicians one to another, and they are the only ones who can. I think this is a very good place for this, and I am delighted to hear you confirm that.

Senator Connolly: Mr. Chairman, I wish to make one remark and ask a question. Mr. Pepin has been talking

about free trade and I think this was a good topic to have raised. I always like to think about the use of the term. The old-timers really never talked about free trade: They talked about freer trade; They talked about the freest possible trade. They did not talk the positive; they talked the comparative or the superlative. I think in the real world that is almost the way you have to approach it. In connection with the negotiations leading ultimately to the Autopact, they were thinking of freer trade, of the freest possible trade they could get.

Hon. Mr. Pepin: I agree.

Senator Connolly: What I want to speak about is the matter alluded to by Senator Carter, and I was very happy to hear Mr. Pepin mention in his remarks in opening, the question of the private sector. Most of our evidence has been dealing with official channels of communication, official methods of dealing with the Americans, the attitude of the government, the attitude of the ministers, the attitude of the officials on both sides of the border, and whether or not the relationship is special or whether it is *sui generis*, whether it is unique. These words do not mean too much to me. I think what you have is a fact of life. You have geography, history, tradition, interests, all of these things working back and forth across the border between people who understand each other and get along.

I would like very much to have Mr. Pepin talk about the Canada-U.S. relationships more particularly from the point of view of the private sector. He has been in a beautiful position, as Minister of Industries, Trade and Commerce, to talk about the official relationships because he has had vast experience there. Now he is in the private sector, I suppose it is proper to say, and presumably he is having dealings, economic, professional, with his opposite numbers in the United States within the private sector.

In a sense, the private sector will go on having its relationships in matters of contract, acquiring capital, arranging for capital, exchanging goods and services, transfers of technology, all kinds of economic interests. Here I think it is not a matter so much of a relationship that is *sui generis*, or unique, or special: it is a matter of good business deals, people who know each other and who have contact with each other. Those kinds of things, I think, will go on regardless of whether politicians debate the improvement of the relationship or its deterioration.

This is not a question, Mr. Pepin. This is almost a speech. Perhaps you would like to make some comment.

Hon. Mr. Pepin: You are quite right. My experience in Canada-U.S. relations has been mostly in the public sector. Consequently, as a minister, even when meeting businessmen in Canada as well as the United States, they could not forget that I was a politician and, consequently, their guard was up and I could not communicate as well with them as I would had I been a businessman.

I might just express a nuance, again, that it is sometimes difficult for the Canadian politician to communicate with American businessmen. Back in 1971, again, we all knew that the automobile companies were quite favourable to the Canadian position on the Autopact, mostly because it coincided with their own interests. But do you think it would have been wise for me to openly tout all of them in the hope of extracting stronger support? Rather dangerous. Somebody spoke before this committee about the difficulty of making representations to Congressmen. Well, it is similarly difficult at times for the Canadian politicians to

make representations to businessmen on the other side of the border.

I am now in the private sector, but in a slightly original way. My objective—the objective the Senate report on the Pacific Rim gave me—is to try to contribute to a change in the Canadian marketing system abroad, in line with the philosophy of diversification of trade. Consequently, do not expect me to centre my attention on the United States. A great number of other Canadian businessmen are doing that. As a matter of fact, we at Interimco are trying to do the opposite. The reflection we make is simply that there are a number of things produced in Canada, in terms of technology, equipment, products, which may very well not sell very easily in the United States, but could sell extremely well in the rest of the world. That is our philosophy of diversification. Our activity is consequently directed much more to the rest of the world, almost excluding the United States.

What I learn now about American businessmen is gathered from meetings like the one I just attended, or of the Trilateral Commission, or when I am invited, as I was recently, to talk to business groups in the U.S. I come back from these outings rather worried by their interpretation of events in Canada.

It is really very difficult for me to understand, for example, their reaction to FIRA, the Foreign Investment Review Agency. We have obviously a lot of straightforward, friendly, calm explanations to give.

Many businessmen contribute systematically and courageously to these meetings. But they are pretty well always the same people, aren't they? I would like—and you can contribute to it—a widening of efforts by Canadian businessmen to participate in these binational meetings.

Senator Connolly: That is almost on the edge or one public sector. By way of illustration, I happen to be a member of the board of a small American oil company in Texas. I go there for meetings three or four times a year. Although it is a small company, the board happens to be a very distinguished one, men who run very, very large enterprises in other fields. I deal with them and they deal with me on the basis of the problems that come before that board as, I suppose, a Canadian entrepreneur who would go to New York to find people to operate his enterprise would have to deal in a contractual, private way with those people. I see that kind of relationship within the private sector going on constantly every day. The links forged between the two countries continue to be forged whether or not we are discussing an unique relationship or a special relationship. They have the relationship. It is based upon conditions that are acceptable in the United States and Canada. I would rather expect that kind of thing would continue. It is a very important part of Canadian relations with the Americans.

Hon. Mr. Pepin: I say "Amen" to all of that, but you have to be a rather important Canadian gentleman to be asked to sit on American boards.

Senator Connolly: It depends on the board!

Hon. Mr. Pepin: I have started by sitting on boards of American controlled companies in Canada. As you may know, I sit on three of them. Canadians who sit on these boards must make their views known, talk frankly on wider issues than the bottom line. Why is it that Americans sit on Canadian boards? I do not disagree with that,

but that Canadians do not sit more often on U.S. boards. I have at times asked American businessmen, "Why don't you invite Canadians to sit on your American board? Indeed, they don't often own your businesses but you have a very heavy involvement in Canada and, consequently, your corporation multinational board makes decisions that affect the Canadian subsidiary and even the Canadian economy." But there is a good explanation as to why this is not taking place.

Senator Connolly: What is the explanation?

Hon. Mr. Pepin: They say, "Our company has subsidiaries in 10, 15, in 40 countries of the world. How could we invite nationals from 40 countries of the world to come and sit on our board? Do you think we are the United Nations?" It is not a bad reason. I answer: "The way multinationalism is evolving and will evolve in the future, you will have to do these things soon anyway. Why don't you practice with us? We are particularly clever, intelligent and peaceful". Obviously, some of them have accepted these reasoning and have invited you, Senator Connolly.

Senator Connolly: I do not know if that was the reason.

The Chairman: I do not say this acrimoniously, but I think our American friends still have a number of areas where the double standard applies. There is a very good example of this in what you mentioned a moment ago, foreign investment. They were critical of our questioning the magnitude of American investment in Canada, even where we were hitting rates past 50 per cent in certain industries. Now the Arabs are moving to invest some surplus money in the United States with control there of 1 and 2 per cent. They are already starting to get very concerned about it. They have one standard for themselves and sometimes another for others. It may be understandable because of their size.

Hon. Mr. Pepin: There is an evolutionary process going on. Very often with past foreign-owned companies in Canada would not even bother inviting Canadians to sit on their Canadian boards! A number of them are still in that situation. But things are changing. It is even forced by law. The next step might be what we talked about.

The Chairman: I think the Texas Gulf board might have been a very good example of that. I am sorry to interject.

Senator Connolly, are you finished?

Senator Connolly: Yes, thank you very much.

Hon. Mr. Pepin: Maybe after what I said I, too, will be invited.

Senator Connolly: We will publicize this and see that this gets into the *New York Times*!

[Translation]

Senator Deschatelets: Mr. Pepin, maybe my question goes beyond the limits of our subject of the relations between Canada and the United States. However, I cannot help raising a point here. It is related to a comment made, a while ago, by my colleague Senator Asselin, concerning our relations with the provinces before adopting a trade policy which may affect some provinces very severely. I think you know quite well the problem I wish to raise. It is the matter of textiles. You know that in the province of Quebec, it is a secondary industry, which provides employment and now, as during the last few years, we have been

seriously affected by various policies of the federal government.

As I understand it, it is in the interest of Canada that we trade with a number of countries. We are forced to accept, if not at least to choose to let goods come into Canada in rather large quantities, to the extent of forcing advanced industries to regulate employment, and so forth. Therefore, I am asking you the following question: you have lived through this problem, but I think that now, as we see it again, there has been no solution. However, I have had contacts with people in the textile industry, and I found them very reasonable. They admit they must, in the interest of Canada, do their part, that is to say they must allow the entry of goods against which they cannot compete, but they say they should not bear the whole burden. Therefore, I cannot miss the opportunity of raising this problem. I am speaking to you as an expert in the private sector, today, and I am asking you whether today, you would have a solution to this problem, which affects the Province of Quebec and the Maritimes?

Hon. Mr. Pepin: My views on this problem are known. They are in the Hansard of May 14th, 1971, the day on which I announced the textile policy.

Senator Deschatelets: May 14, 1971?

Hon. Mr. Pepin: I think my recollection is accurate, it must be, because it is a text I have often quoted. I think that in this area as in many others, we should not be academic. We must consider the situations as they exist and the situation of textile in the world is a most particular one. The textile world is recognized by the experts as *sui generis*, to use an expression that I seem to be fond of. The textile world is not a free one, it is a world in which quotas, restrictions, tariff barriers and non tariff barriers, are very numerous. It is a world in which developing countries get access to early, because it does not require, traditionally, very important investments. In fact this is changing.

It seems to me Canada has decided not to sacrifice its textile industry, there are strategic, economic, employment reasons for instance, not to do it. To be noted also that in this area, there is a quick technological evolution, that the textile industry is becoming more and more an advanced technological industry as well.

Therefore, factors much more sophisticated than simple theory of free trade come into consideration, don't they? It is for this reason that the textile policy, and you will read it if you like, as set out on May 14, 1971, was trying to put things in perspective, and concluded to the fact that in some cases, Canada should make decisions which would be of a restrictive nature, all that accompanied with an effort of rationalization, conditioned, supervised by the existence of the Textile and Clothing Commission. Therefore, the Act creates a system, a strategy for this sector.

You remember how difficult it was to develop this policy, how difficult the debate has been in the House? I remember that in the House, some afternoon, a Member from the West, I will not give his name, made a complete lecture on free trade. I went to see him afterward and told him: "It might be good, in such cases, to study the facts, to take the circumstances into account." He replied "Sir, in the Canadian West there is a free trade tradition which must be expressed on every occasion".

The fact remains the textile policy was presented. Many people, important ones, predicted, then, the most catas-

trophic misfortunes on earth. Now, you may know, that this Canadian Textile Policy has often been referred to later in the GATT negotiations, for instance, as a prototype of an acceptable textile policy. I was even told that it was used to draft the new international agreement on textiles. I continue therefore to think that there are circumstances like those you have indicated where efforts of rationalization and modernization are done, impeded by decisions and politics adopted by other countries, sometimes in an irrational and unacceptable way, and that Canada must take adequate protective measures.

Once, I went in a country, that I will not name for obvious reasons, where I realized that there were free zones, where companies of developed countries where establishing subsidiary companies giving salaries of 12¢ per hour, \$15 per month, \$50 in the case of engineers, etc. I asked one of my colleagues why they did not use concentration camps. Production cost would be even lower. All that to say that there are situation where, I think, like our people say, there is a "limit".

There are viable sectors in the Canadian textile industry, which must not be sacrificed. There are also cases where other countries, for various reasons, sell their products to Canada, at prices which are sometimes lower than the cost of the raw material. The reaction of the free trader, at this moment, until his own job is threatened, is to say that all that is good for the consumer. The question I ask is the following: for how long? One may consider that this merchandise is sold at such a price in order to contribute to the elimination of this industrial capacity in Canada. When the industry will disappear, this merchandise will undoubtedly be sold at a higher price than before. Experts will make comments on those turbulences, those very rapid changes in the prices of textile products in the world.

We must take into consideration the whole situation if we want to assess the position of Canada. We must know what are the percentages of importations that Canada accepts presently, from developing countries especially. If you consider those figures, you will realize that they are very high, that they are more considerable than their equivalents in the United States, that they are much more considerable than those of other industrialized countries, of the European countries for example, etc. One must show sound judgment to determine if the effort made by Canada is sufficient. For my part, I think it is.

However, one must note also that, in certain situations, the Canadian textile industry does not compete only with developing countries. It competes also with the United States, for example. It is the case presently with certain textile products. Because of the American recession, an overload of American products are directed to Canada where they are sold at very low prices. One must note that Canada is very careful when the nation concerned is the United States.

Once more, Senator, the textile issue is very, very complex. There is no easy answer to it. Personally, I am very proud of the effort there has been in 1971 in order to establish the textile politic. I think that the Government should refer to it and take it as a basis in his study of the problems that have to be resolved in this sector.

Senator Asselin: You have made your comments more clear now.

Hon. Mr. Pepin: I did not establish this politic alone. The ministry and the minister of Industry, Trade and Commerce have made every effort to bring the prov-

inces, the labour unions, the owners of plants, all those who could suffer or benefit from the situation, to give their opinions.

[Text]

The Chairman: Honourable senators, I wonder if I might make this observation. Time is passing. I hope our witness will stay for some time yet because there are many areas we would like to continue to hear his views on. I was wondering if we could avoid the temptation of sliding off into trade; otherwise we will be here for a day or two, and that is really another subject. I would try to stay with the mechanisms for the moment and, as I say, we will be hitting trade in due course, when, hopefully, Mr. Pepin and the other witnesses will be back.

Senator Asselin, you had another question?

[Translation]

Senator Asselin: I think you said earlier in your remarks that we should display some flexibility in these consultations. I think also that Canada has done it with the United States. Would it be fair to say that present relations with the United States in some sectors are not at their best as, for example, the question of oil which we have again to deal with? I would like you to tell us about your experience. I want to know if, when the prime minister of Canada meets with the president of the United States, it would be easier if both of them knew in advance the conclusions of their meeting instead of showing an irrevocable position during some discussions? I think that this is bad for the economy of the two countries. Could you tell us how these meetings are arranged and if they are so well prepared that we cannot have, from the two leaders, practical conclusions without coming to a strife, which in my opinion, is unhealthy for the two countries?

Hon. Mr. Pepin: If you are thinking particularly about the meetings between the present prime minister and—

Senator Asselin: Yes, the meeting between Mr. Trudeau and Mr. Nixon in 1971?

Hon. Mr. Pepin: —in general they have been relatively calm. The meeting between Mr. Trudeau and Mr. Nixon in December 1971 ended on a note of euphoria, or almost.

Senator Asselin: The most recent one also?

Hon. Mr. Pepin: The most recent was held in a marvelously calm atmosphere. Moreover, you know that these meetings are generally very well prepared, that the communiqué is even written in advance and subject to some last minute improvements deletions and additions. Really, we cannot say that these things are haphazardly made.

But obviously there are exceptions to this rule. Sometimes the conflict is insoluble at least temporarily and the politician, minister or leader of government may use strong language, cannot resist the temptation of immediate success, or thinks too much of himself. However, a politician who acts in this manner pretty soon realizes that it is not profitable and that he has to take back half of what he has said. Rarely does he repeat the same mistake twice.

Senator Asselin: Also, what is the role of our relations with the embassy? For example, in the United States, Canada has an ambassador, Mr. Cadieux, who has delivered a beautiful speech on relations between the American and Canadian governments.

I think you inquired earlier whether we would be in favour of discussions between the senior officers and the ambassador instead of directly involving the politicians? Is it not true that this depends mostly on the personality of a particular ambassador?

Hon. Mr. Pepin: You know that the role of the ambassador in the conduct of inter-governmental relations has changed. A recent article in the "*International Journal*", entitled "*Diplomatic Method*", proves this. The role is different. In the past, because communications were slow, the ambassador participated personally, sometimes even to the point of imposing his own ideas, to the negotiations between the countries. Nowadays, and I think Mr. Cadieux told you, this personal role is very limited. The ambassador acts as an intermediary, a middleman,—if I may use this expression,—an information agent, a "lobbyist". He seldom takes part in the decision making process, he can only influence it from the outside. We will certainly consider his contribution, but rarely will he decide or negotiate.

There is also the physical fact that distance is short between Canada and the United States and that the members of the executive body and even senior public servants can hardly resist the temptation to "by-pass" the ambassador.

My experience in this field was that the advice of the Canadian Ambassador in Washington was always,—no, I cannot say always,—but, to my knowledge, was usually very respected. I can recall one or two instances where it was not followed.

Once again, this is a question of judgment. At times, people in the field see things differently, sometimes better, but sometimes worse than those who see them from the outside. So, all we can say is that the role of the Ambassador of Canada in Washington is very significant. He brings a point of view which, with others, is tabled before the Cabinet when decisions are made.

[Text]

Senator McElman: May I ask a supplementary?

The Chairman: Senator McElman?

Senator McElman: With respect to the embassy and its role, could we perhaps zero in on something that is very relevant? You mentioned FIRA. Would it not be the role of the ambassador to communicate the Canadian interest in this to the members of the Congress in the first instance, and perhaps the leaders of those sectors of the U.S. economy who have some fears about FIRA. Is this not a proper ambassadorial and embassy role?

Hon. Mr. Pepin: It is. I am quite sure the ambassadors, past, present and future have done that and will continue to do that. It is a matter of judgment for you in this committee to decide, after you get the proper information, if he does it sufficiently or not and to say so.

Another aspect of this—and someone has referred to it—is the propriety of the ambassador lobbying Congressmen. There are obvious limitations in the extent to which he can personally do it and in the way he can do it. I know that he does it, but instead of knocking at the door of Congress, now he will quite naturally invite them, for example, to dine at the residence, possibly with visiting Canadian political leaders and personalities and make his points on that occasion.

In my view, however well this is done by the diplomats, there is a necessary role for politicians, vis-à-vis other politicians. In other words, I believe that politicians will be more receptive to a case if it comes from another politician than if it comes from a civil servant or a diplomat. That may be unfair to the diplomats, but I think it is true and normal.

Senator McElman: If the role of the embassy should be restricted to some extent in this regard by protocol and other things, by what other means are we to reach the leaders of the sectors of the U.S. economy that are directly interested in the effect? What are the avenues?

Hon. Mr. Pepin: From the visit of a Canadian cousin, to a U.S. Congressman, to meetings of parliamentarians. I regret not being more original on this subject matter having said at the beginning that all avenues, all possible channels should be used, depending on circumstances.

The Chairman: Senator Carter, do you have another question?

Senator Carter: I was going to ask the witness for an extension of his remarks on what he called the package deal, the method of bringing together a package of irritants. I know you pointed out that there were certain dangers, and you have said this boiled down to a choice of options, but is it a desirable practice at all, because is there not a great danger of trading off one irritant for another? When you do that, you do not solve anything; the problems still remain on both sides.

Hon. Mr. Pepin: That is indeed a danger. On the other hand, there might be some advantages to be gained in packaging, especially when the issues are not reconcilable one by one. Let me give you an example. In the 1971 package you will recall that there were three main elements in the United States position. There were the Autopact, the Defence Sharing Agreement and the Tourist Allowance. But Canada also had irritants in its relations with the United States. There were their anti-dumping procedures, the American selling price, the uranium embargo. The Copyright Clause—it gives an advantage to American printed matter coming into Canada, which is not reciprocated. Some of these irritants could have been “packaged” with some of theirs. For example, you could have given in on the tourist allowance, and they could have given in on the copyright. There are then occasions, it seems to me, when packaging a number of irritants could be attractive. This is why I do not think we should be, theoretically, against packaging.

Senator Carter: It can be useful on certain occasions.

Hon. Mr. Pepin: Right.

The Chairman: Senator Carter, I have a supplementary. Mr. Pepin, in his answer, dealt with packaging irritants. Could I touch for a moment on a larger form of packaging, not of irritants, but of major areas of negotiations with the United States? To use an hypothetical example, you package access to raw materials to the Americans, on the one hand, for greater access for Canadian manufactured goods into the American market, on the other hand. They are really not irritants but are very large areas where, if you do not bring them into a package, can you really move forward?

Hon. Mr. Pepin: That is an even more complex subject. The conflicts in which I have been involved were very

difficult at times—for example, the Autopact, the Michelin case. I still believe that the major reason for the lack of success in the negotiations on irritants had to do with wider preoccupations, like industrial development.

To be blunt, I would say that Mr. Connally had a Texan approach to the development of the Canadian economy. I understood that better after I went to Texas! Every sophisticated American plant developed in Canada—and I am being a little uncharitable now—was in his mind, consciously or not, a steal on Texas.

I kept emphasizing, for example, in my conversation with Secretary Schultz that industrial development in Canada, if it was to be competitive internationally, in many instances had to rely to a great extent on the American market. Otherwise, you could only develop in Canada plants for the domestic market which would make these plants uncompetitive internationally, the consequence of which would have to be the existence of a high tariff.

The Chairman: Which, of course, is the great free trader's argument.

Hon. Mr. Pepin: Yes, but free trade does not exist, at least yet! In the meantime Canada must develop industrially. I am far from sure that the problems I am referring to would be solved with free trade in a way that Canadians would be ready to accept.

The Chairman: I am sorry, gentlemen, with my aside I did the very thing I admonished you about a minute ago.

Hon. Mr. Pepin: The aside is really of importance because my belief is, history will correct me if I am wrong—that in 1971 and 1972, when we were talking about these famous “irritants”, we were really thinking about things much more fundamental, for example, about the industrial development of Canada, the right of access by the U.S. to Canadian resources, the things you have in mind, Mr. Chairman. It will take some time before “perceptions” on both sides are adjusted on matters as difficult as those. That is why we live now in an “in-between” period in Canada-U.S. relations when perceptions are changing on both sides, until the pendulum, after swinging quite a lot, will position itself in the centre. To what extent do we have access to their markets for industrial goods, to what extent do they have access to our natural resources, what degree of freedom of investing do they have here, et cetera? The adjustments are being made now.

If you would allow me, before we close I would like to make a different point. I take exception to a few things that were said by witnesses who came to the committee before me. Some of them have presented Benson and I as going down to Washington in August of 1971 with “cap in hand”. I disagree with that most emphatically.

Professor Lyon says that “because we were soft we were refused the exemption.” Somebody else says, Rufus Smith, I think, “that because Canadian negotiators were so inflexible and overreacted, they made a bad case.” By the way, try to reconcile these two views, if you can.

I want to tell the committee—and I think that “la petite histoire” will give me reason—that Benson and I did not go “cap in hand”. I do not even recall that we ever asked for the exemption, in such specific terms. I do not recall that we ever invoked “the special relationship”. But I do recall very well that we said that the indictment, the accusation, did not apply to Canada. That is what we said.

Senator Carter: That is right.

Hon. Mr. Pepin: We said that the reasons invoked by Nixon and Connally for "the new economic policy" did not apply to Canada. You remember the two reasons: the unfair exchange rates—and Canada was floating; the unfair tariffs—and Canada had anticipated on the Kennedy Round implementation. We said "not guilty" to that. We said, "Your case does not apply; the thought should not have occurred to you that these extraordinary measures should be used against Canada." Following that, the American argument very rapidly moved to "irritants". From irritants there was a second move, to balance of trade considerations.

Some analysts may say that Canadian ministers might have been able to anticipate these August, 1971 events, by moving earlier on tourist allowances and the Autopact. I doubt it. The fact is that we got trapped by circumstances beyond our control. We got caught by the balance of payments problems in the United States at that time which had not much to do with the bilateral Canada-U.S. balance of payments situation. Nixon and Connally had decided, to use Connally's words, "to shake the world. And that, brother, includes you!"—meaning Canada. We had to be shaken with the rest of the world, rightly or wrongly. Our commodity trade balance situation was so favourable, in these gentlemen's eyes, that somehow we had to suffer. We got caught in, call it "the international" aspects of American balance of payments policies at that time.

We also got caught in conflicts of personalities in the American administration. Some people, in the Treasury Department in particular, had come to the conclusion that the diplomats in the State Department had been soft on Canada. They wanted to show "the diplomats" what they, the tough guys in Treasury, could do. In the same interview I have already referred to, Mr. Tresize said, "We needed some changes to make people in Washington happier." We got caught in their internal rivalries. Bear in mind the events of those times, the political ascension of Connally, the possibility that he might be Vice-President, President. In this particular instance it is much more circumstances over which the Canadian government had very little control, if any, that produced this clash. I remember these days well because when you have lived them you do not forget them easily. Canadian negotiators, politicians and civil servants debated well. This was Benson's finest hour, I think. I was only playing second fiddle to Benson.

On the balance of trade problem we had very good arguments. We tried to convince the Americans that they should not look at commodity trade only: they had to look at "invisibles" too; they had to look at current accounts. But invisibles were always invisible to John Connally! He refused to look at anything else than commodity trade and there, he said, "You guys are doing too well!"

We made the point that a favourable trade balance with the United States was a recent development for Canada; it used to be favourable to the United States; changes could very well occur. It has changed, as you know. The same on the Autopact: we made the case that the imbalance could go any way, it probably would go the other way again—as it has! We showed them that a lot of Canadian exports to the United States involved energy. We showed them that they had a very favourable balance with Canada in end products. We tried to demonstrate that putting surcharges on our exports to the United States would hurt them in their exports to Canada. But they were dead set on getting results, concessions. Connally had a whole philosophy of

"balance" and "symmetry", the like of which, as Mr. Dieffenbaker would say, has never been seen. Everything had to be symmetrical or balanced... but in his favour. The defence Sharing Agreement, for example, had to be balanced way back to 1965 and then "You owe me half a billion." But the Autopact could only be balanced to last year because had it been balanced to 1965, we could have said, "You owe us 2 billion."

It was also very interesting to watch what went into his exercise in "symmetry". As you know, the imbalance in printed matter is 350 million on the U.S. side and some 15 million on the Canadian side, but that was not to be balanced. They, having started from the postulate that Canada had to make a unilateral contribution, and we not feeling that we would be justified in doing that, there was not much that could be done. I, for one, was convinced that anything that we might have given at that time would have been ungratefully received. There is an article in my diplomatic code which says that when you are asked to give something and get nothing in return, do not give anything, if you can, because you might use whatever you have at a later date! Really, this is what happened. We came back to Canada, presumably "cap in hand", and took precautionary measures, the Support Employment Act and the part of the Turner Budget on reduction of taxes to manufacturers and processors.

Some Canadians thought that this was "peanuts", but everywhere else in the world we were looked upon as rather courageous fellows!

My good friend, Rufus Smith—I love him dearly—gave you an illustration of the fact that Canadian politicians overreacted, that in support of the unemployment bill that I introduced in Parliament, \$88 million was asked to make up for potential losses resulting from the surcharge. He says we spent only \$1 million. It was more like \$10 million. Then he makes the distinction between the reaction of Canadian politicians, which was exaggerated, and the rather calmer reaction of Canadian businessmen. I say "Hm-m-m!" The assessment of the possible cost of the U.S. surcharge to Canada was made by the Department of Industry, Trade and Commerce after extensive consultation with the private sector. Extensive—I recall the size of the files that resulted from this exercise. If the politicians overreacted, the businessman reacted, too. But maybe nobody overreacted! The surcharge, had it not been eliminated by December of 1971, if my memory serves me well, might well have cost \$80 million or more.

Obviously, Mr. Chairman, there will be some rewriting of history here. I maybe doing it too now. But I think it is useful to put these things in the record. Do you agree?

The Chairman: I certainly do. I am very delighted you have chosen this forum to do so.

Hon. Mr. Pepin: Before others write books about it.

Senator Asselin: You should write your memoirs.

Hon. Mr. Pepin: I have'n't the time.

The Chairman: Mr. Pepin, I am delighted that you took this opportunity to put those facts on the record and, as I said a moment ago, that you have chosen this forum to do so. I wonder if, before we break up, I could just ask you this question, and it goes back to your opening remarks. I have read with some care Mr. MacEachen's speech in Winnipeg of a month or two ago. He stipulated again that the special relationship no longer exists. I agree with him

in that. I think we have passed the point where Canada goes cap in hand and says, "Please, you have to make an exception of us." I also agree completely with your remarks that, as our relationship becomes more complex industrially and with shortages in the world, points of abrasion and difficulty will continue between the two countries. I do not find that an unhealthy thing at all. What I do find unhealthy is a thing that I do not think I am alone in perceiving in Canada, and that is the feeling that a lot of Canadians have, that there is a level of, not willingness to simply stand up to the Americans, but actual anti-Americanism in Canada. I think many of us are concerned that no government action will exacerbate this. Maybe this is semantics; maybe our problem is words. In the same breath we are saying we are discontinuing the special relationship with the United States, but at the same moment, and almost the same month, we are saying that we want to establish a special relationship with Europe. The phrase "diversification of trade" is being used, whereas in our report on Europe we did not use words like "diversification"; we said we must establish as strong a link as we can with Europe. But when you get into words like "diverted," you are almost saying, as Mr. Diefenbaker said in 1960, "We are going to move 15 per cent of our trade away from the United States over to England." Maybe we are now going to try to move a percentage away from the United States over to Europe.

Would it not be better to stay on the highroad of positive action with Europe and the Pacific, without these inferences that we are trying to move it away from the United States and we are trying to escape from a special relationship with them by substituting a special relationship with somebody else? This, incidentally, has given some of the Europeans some difficulty. In newspaper accounts one Dutchman said, "You wish you lived on another continent." I wonder if you could comment on that before we close.

Hon. Mr. Pepin: That is why I really tried to put my two bits on the record, at the beginning, on terminology. When you say the special relationship does not exist anymore, you mean to say that we have come to a new age, a new period, a new phase of the relationship between Canada and the United States. What you want to eliminate, in Professor Lyon's classification of elements of the special relationship, is the third element, which he deforms, in my view, when he calls it the "plea complex". This is really why I put those remarks on the record. From now on, when your committee talks about "special relationship", make sure, if I may ask, that they talk about a phase in Canada-U.S. history.

Senator Asselin: You mean, that period is over?

Hon. Mr. Pepin: It is ended for all historical purposes. The word "special" should be used in a purely historical sense.

For the time being, I suggested *sui generis* or "unique" as a temporary compromise. Then, as I said, somebody will invent some words to define the new relationship which is now evolving. Am I clear?

The Chairman: Yes. On that point I agree.

Hon. Mr. Pepin: It is just a matter of agreeing on the use of words.

The other thing you mentioned is the unhealthiness of the strident, noisy relationship that we are having now

with the United States and some elements of anti-Americanism developing in Canada. I am, of course, against that.

For example, some people made a great to-do about buying back Canada. What would you buy back? In most cases that I know of, the Canadian subsidiary, deprived of the umbilical cord with the mother company, is not worth 30 per cent of what it is worth as it is now. But does that mean that there is no value in the screening of investments? Of course not.

It has really been my theme song, today, to say that these are questions of judgment and prudence. But, then, what is considered by me to be prudent may very well be considered by someone else to be naive. Isabelle Rivière says, "You are prudent, what an imprudence."

What really counts is the consensus that develops progressively. But can consensus be developed without the shocks from extremes? You can only have a centre because you have a right and a left!

It is natural that we should have opposite views on all the matters we have talked about this afternoon. Personally I take pride in taking moderate views. Other people call that weakness. I respect them. I suppose that because I accept the inevitability of conflicts I must also accept the inevitability of "noise", as you call it.

Your final point: The apparent contradiction between putting an end to the special relationship and keeping it. Again, what are we talking about? If we are talking only about the psychological aspect, it remains special. You could put an end to the inferiority or superiority complex aspect of the special relationship between Canada and the United States without putting an end to the more intimate structural and procedural aspects of it. But, then, what is wrong in trying to establish better procedural and better structural relations with Europe too?

The Chairman: It becomes semantics.

Hon. Mr. Pepin: When one purges oneself from the difficulties of words, one finds the thoughts more acceptable. I do not recall the Prime Minister referring to the special relationship with Europe. Did he do that?

Senator Carter: No.

Senator Asselin: Not yet.

Senator Carter: The contractual link.

Hon. Mr. Pepin: If we should one day, as I hope, end up having contractual links with every part of the world, there will hardly be anything "special" any more with any one of them! This would be highly desirable.

If Canada refuses free trade, which I think leads to political integration with the United States, we have to develop structural, procedural intimate relationships with other parts of the world—with Europe, with Japan. Otherwise, we are left out in the actual "blocation" of the world.

My "kick" now is that if we are going to trade substantially with the world at large, and not only with the U.S.A., if we are going to diversify our trade in a systematic, cohesive and powerful way, we have to invent ways of trading different from the traditional ones that we have been using. The rest of the world does not trade like the United States, or like Canada trades with the United States. Canada cannot expect to trade in the same way with China or the Soviet Union or Africa as it trades with the United States. In other words, if it is an element of our

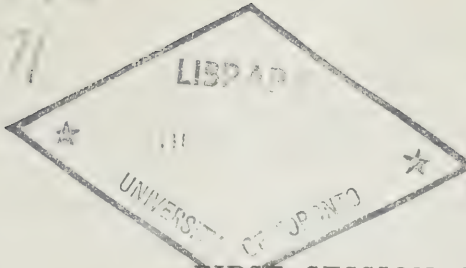
policy to diversify trade, we will have to diversify also the instruments we use.

For example, there are multinationals in Canada that are American-owned in most cases. If Canada had different trading instruments, these multinationals might very well be enticed to use the Canadian launching pad, as I call it, much more extensively than they have up to now.

I hope I am clear enough. I am clear in my mind. I hope this is clear to you.

The Chairman: Gentlemen, it is after 5 o'clock. I would like, on your behalf, honourable senators, to thank Mr. Pepin for appearing today. I might say, without taking anything away from the excellent evidence we have had from many previous witnesses, that I think I speak on everyone's behalf here when I say that this has been one of the most stimulating and enjoyable afternoons that we have had since we began our study.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 12 (REPRINT)

TUESDAY, APRIL 29, 1975

Eleventh Proceedings Respecting:
Canadian Relations with the United States

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk—(20).
Hastings	

Ex Officio Members: Flynn and Perrault

(Quorum 5)

Minutes of Proceedings

Tuesday, April 29, 1975

(15)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2.35 p.m. this day.

Present: Honourable Senators van Roggen (*Chairman*), Belisle, Carter, Connolly (*Ottawa West*), Croll, Grosart, Lafond, McElman, McNamara, Rowe and Yuzyk. (11)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Professor Ronald St. J. Macdonald, Q.C., Dean of the Faculty of Law, Dalhousie University, Halifax, Nova Scotia.

At 4.38 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. INNES,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, April 29, 1975

The Standing Senate Committee on Foreign Affairs met this day at 2:30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*), in the Chair.

The Chairman: Honourable senators, we have with us this afternoon Professor Ronald St. J. Macdonald, Dean of the Faculty of Law, Dalhousie University. Prior to becoming Dean of the Faculty of Law at Dalhousie University, he taught law at Osgoode Hall Law School and the University of Western Ontario, and was the Dean of the Faculty of Law at the University of Toronto. Dean Macdonald has a special interest in international law. In addition, he is President of the Canadian Council on International Law and has been a member of a number of Canadian delegations to the United Nations. He is presently Vice-Chairman of the United Nations Committee on Racial Discrimination, and has been a consultant on international legal questions to the Department of External Affairs.

In earlier hearings we have had witnesses raise the question of the advisability and use of arbitration as a method of settling international disputes, with particular reference to disputes between Canada and the United States, which is the subject of our study. Dean Macdonald has kindly consented to come here today to discuss with us some of the techniques, as well as the pros and cons, of arbitration for settling international disputes between countries, again with particular reference to disputes between Canada and the United States.

We are most grateful for your coming this distance, Dean Macdonald. If you are agreeable to start with an opening statement, Senator Grosart will then commence the questioning.

Professor Ronald St. J. Macdonald, Dean, Faculty of Law, Dalhousie University: Thank you, Mr. Chairman. It is a great pleasure for me to be here this afternoon. I wish to thank you, Mr. Chairman, and, through you, the honourable members of your committee, for having given me the opportunity to attend and participate in your very important deliberations. I should like also, if I may, to express my appreciation to Mr. Dobell and Mrs. Seaborn, of the Parliamentary Centre for Foreign Affairs, for the excellence of the arrangements and for their kindness in suggesting a course of action that I might wish to follow.

Mr. Chairman, I do not have a formally prepared statement, but for your convenience I thought it might be helpful if I organized my remarks around five headings, which are as follows: first, I thought I would refer

very briefly to our historical experience with arbitration; secondly, I would try to identify a few of the existing principles of dispute settlement that are binding on this country and on the United States; thirdly, and with great trepidation, I would like to say a few words generally about arbitration and judicial settlement—I say “with great trepidation,” Mr. Chairman, because I am very conscious of the fact that there are many distinguished lawyers, including a former Carnegie Fellow, among members of your committee; fourthly, I should like to say something about the current disputes—that is to say, the disputes with the United States; and, finally, I might offer one or two words in conclusion. If that is agreeable, Mr. Chairman, I will proceed in that way.

First of all, as to the historical background. If we include the early cases in which Great Britain acted on behalf of Canada, and at least indirectly represented Canadian interests, it is apparent that Canada and the United States have had a long experience in the field of dispute settlement. The *Alaskan Boundary Arbitration* in 1903 is significant, I believe, not because of the relevant importance of the questions of international law involved, but because there seems to be a unanimous, or near unanimous, Canadian opinion that the outcome looked more to the preservation of Anglo-American relations than to the protection of Canadian interests. Honourable senators may recall that the decision of four to two, with Lord Chief Justice Alverstone of the United Kingdom, or Great Britain, voting with the Americans, awarded to the United States the head of certain inlets that had been in question and also two islands which command the entrance to Port Simpson in British Columbia. The effect of the awarding of the islands was, according to the Canadian view, to deprive Canada of much of the advantage that we would otherwise have had from control of the Portland Channel.

In the more than half a century since that arbitration, there has continued to be on the part of Canadian commentators expressions of opinion that the Lord Chief Justice was more concerned about conciliating the United States than respecting the legitimate interests of Canada. He was accused of handing over the islands in order to satisfy the American members' anxiety for a diplomatic victory and to prevent them from rejecting the whole decision outright. Such a course of action was, of course, totally out of keeping with the judicial nature of the tribunal as described in the Convention.

In contrast, the *North Atlantic Coast Fisheries Arbitration* of 1910 dealt with various substantive matters of international law, such as servitudes, the manner of determining the extent of territorial waters, and the interpretation of the treaty rights of aliens, all these in

a manner that was, and is, regarded as satisfactory from the Canadian point of view. In general, the contribution of the North Atlantic Coast Fisheries Arbitration to the clarification of international legal concepts stands above that of other United States arbitrations with Great Britain that especially affected Canadian interests.

There are other examples of arbitrations that have been successful both from the point of view of settling issues in dispute and developing the legal principles operative in relations between Canada and the United States. For example, in the famous *Trail Smelter* case of 1935, the tribunal—in that particular case the International Joint Commission—settled the question of damage done in the United States by fumes wafting across the border from a smelter at Trail, British Columbia. When dealing for the first time at the international level with the question of international air pollution, the Commission held that no state has the right to use or permit the use of its territory in such a manner as to cause injury by fumes in or to the territory of another state when the case is of serious consequence and the injury is established by clear and convincing evidence.

In the "*I'm Alone*" case of 1932, equally famous, I believe, in this country, the Canadian government complained of the sinking on the high seas of a liquor smuggling vessel of Canadian registration by a U.S. coast guard vessel, as a climax to a hot pursuit which started outside United States territorial waters, but within the inspection zone provided for in the so-called Liquor Treaty between the United Kingdom and the United States. The Canadian claim was referred to commissioners appointed under a convention, and in their final report the commissioners found that the sinking of the "*I'm Alone*" was an unlawful act and that the United States ought to pay \$25,000 compensation to the Canadian government. This was done, the controversy was settled, and several important questions of international law were decided along the way.

I have not mentioned the *Fur Seal Arbitration* of 1893, the miscellaneous claims having to do mostly with fishing vessels under the Pecuniary Claims Agreement of 1910 or, more recently, the *Gutt Dam* arbitration of the 1960s under which Canada paid compensation to American land owners whose property had been flooded as a result of alleged negligence by Canadians.

All these cases, Mr. Chairman, are obviously important parts of the historical record. It is evident, however, that our long experience with arbitral tribunals and claims commissions has resulted, not only in the reduction of many common concerns, but also in the development of the rules of international law applicable to the relations between Canada and the United States, particularly as regards the rights of aliens, assessment of damages, waiver of claims, servitudes, fisheries questions, exhaustion of local remedies, and the law of state responsibility.

Canada's overall experience with arbitrations does not appear to me to substantiate the misgivings about the process that were raised in relation to the Alaskan boundary dispute. On the contrary, it can be said that, from a Canadian point of view, the arbitration experience has been a positive one. A number of politically irksome and technically difficult problems have been settled in an orderly and generally satisfactory manner. The

method of arbitration has well served the cause of good relations between Canada and the United States. It remains to be seen whether there is an actual as opposed to a potential need for arbitration at the present stage of development. What we can say is that the lesson of the past has been a favourable one.

In addition to having cooperated in applying and developing principles of good neighbourliness through the arbitration process, Canada and the United States have established a significant number of specific agencies for the management of their transnational differences, especially in relation to defence, fisheries and commercial relations. Several of these have been referred to by other witnesses, so it is unnecessary for me to go over that ground again.

Article 10 of the Boundary Waters Treaty of 1909 was specifically mentioned. Although this article has never been used, it could be interpreted as a general arbitration clause under which could be brought any disputes the parties wish to submit. However, the article only becomes operative by and with the advice and consent of the U.S. Senate and with the consent of the Governor General of Canada. There is also a question as to whether article 10 ought to be used in the future. The commission has shown outstanding competence in dealing with questions of a technical nature relating to water levels, obstructions and divergence, but it can scarcely be said to have been established with a view to the legal solution of disputes which diplomatic negotiation prove incapable of settling.

Perhaps I could now turn to the second point, the general principles on dispute settlement. Against an impressive background of accepted international law principles and established bilateral agencies, together no doubt with the rise of a much more sophisticated and complex Canadian-American relationship in the post-1950 period, there have from time to time been suggestions that "principles be laid down." As long ago as 1959, Mr. Pearson suggested a top level conference of leaders to consider whether an agreement could be reached and set out in a formal convention, perhaps for approval by legislatures, embodying the principles that should govern relations between the two countries.

Referring to the Hyde Park Agreement as the kind of thing he had in mind, Mr. Pearson said that a formal agreement was needed to which appeal could be made in the event that either government acted contrary to the principles in the formal agreement. Mr. Pearson at no time suggested that any kind of obligatory arbitration be set in motion at the instance of either state. Nevertheless, the government of the day thought that his suggestion would lead to "over-formalization" of relations with the United States.

In this connection, I think it is important to observe that there already exist, and have existed for several years, an important cluster of general obligations to peaceful settlement that are binding on both Canada and the United States. For example, Article 2, paragraph 3 of the Charter of the United Nations requires members—and, of course, we are a member—actively and in good faith to seek the settlement of their disputes. Under the famous Article 33 of the charter, the parties to every dispute are enjoined to seek, first of all, a solution by negotiation, inquiry, mediation, conciliation, arbitration,

judicial settlement, resort to regional agencies or arrangements, or other peaceful means of their own choice. In the principles on friendly relations and co-operation between states the same recitation appears.

Many other relevant instruments could be cited, but perhaps enough has been said to indicate that under general international law Canada and the United States are already obligated to seek in good faith the settlement of their disputes by peaceful means of their own choice, and in such a manner that peace, security and justice are not endangered. It is questionable, in my judgment, whether a need can be made out at the present time for yet another tier of general principles urging the parties to peaceful settlement.

I turn to the third point, on arbitration and judicial settlement. If I could look at the two principal methods of dispute settlement to be considered today, I would deal first with arbitral tribunals and then with possibilities that might attract us under the Statute of the International Court of Justice. As we all know, arbitral tribunals may consist of several individuals working in conjunction or of a single person. They act on their own responsibility without instructions from a state. The tribunal may be permanent or it may be *ad hoc*. The basis of the decision may be according to law, or it may be reached without reference to the law in force. That is to say, it may be *ex aequo et bono* which means on the basis of fairness and justice. The decision may be binding or non-binding. If it is non-binding, then there is a conciliation rather than an arbitral settlement. Generally speaking, however, the compromise authorizes a decision, states the time limit within which the decision must be made, and states that it will be final.

The advantages of arbitration, in my view, are as follows. First of all there is protection of the autonomy of the parties. The parties can select the arbitrators and define the procedure. This usually offers a guarantee that the decision reached will be respected. It is usually easier, much easier, to submit a dispute to a tribunal and a procedure of your own choice than to commit yourself in advance to a general system of dispute settlement for an indeterminate number of cases of an undefined character. With arbitration the undertaking is a concrete one and its effects are foreseeable.

Secondly there is flexibility. It is possible to appoint the most appropriate personnel. For example, experts and specialists in particular fields of law can be matched to highly technical subjects; persons from certain geographical regions or with particular backgrounds and experience can be appointed.

Thirdly, the procedure may be simple and quick. The parties are at liberty to agree on details of the procedure. Sometimes, though not always, the proceedings are less expensive than with judicial settlement. The case can be settled without a full statement of motives or of reasons, if that is thought to be desirable. It can also be conducted without undue publicity, if that is thought to be desirable.

Fourthly, an arbitral tribunal is better suited than a court to decide a case *ex aequo et bono*. The services of diplomats and technical experts as well as jurists can be called upon. The tribunal itself can sometimes offer new, attractive alternatives, possibly in fields not

directly connected with the matter at issue. It can take into account the overall picture and enlarge the context of the problem. Concessions on one point can be offset by concessions on another.

Fifthly, there exists the possibility of a non-binding decision; that is, the decision is final and binding only if the parties agree that it will be so. When the decision is not binding the tribunal merely issues recommendations which, as a practical matter, are usually accepted. Admittedly this solution is not perhaps perfect, inasmuch as the dispute is not settled once and for all with binding effect. However, I think it is important to point out that the aspect of voluntarily accepting a proposed settlement is gaining in popularity around the world, and recent Swiss experience would bear this out.

Sixthly, there is the precedent effect. The precedent effect is smaller in arbitration than in judicial settlement because the procedure is less spectacular and less formalized. Consequently, the resolution of the conflict leaves greater room for manoeuvre in the future.

There are, I think, two major disadvantages to arbitration. The first is non-uniformity of the decisions reached. Arbitral decisions may result in a fragmentation of international law and differences in its interpretation and application. The fact that such bodies do not set very firm precedents and that their authority may be weaker diminishes their ability to contribute to the development of international law. However, this point may be overstated, because there is certainly a series of arbitral awards that have made very significant contributions to the development of international law. On the other hand, we cannot help but place a small question mark over the judgments of the International Court of Justice itself in so far as the consistency of its judgments is concerned.

The second weakness is the inclination to compromise. This inclination may adversely affect the objectivity, legality and justice of the decision or proposed solution and lead to a state of legal uncertainty and acrimony within the states concerned. The members of the tribunal are sometimes inclined, for political and psychological reasons, to seek any compromise solution. In my judgment, it is just not true, for example, that 50-50 settlements or equal apportionments of profit and loss always represent fair justice in a dispute between states. On balance, the advantages of arbitration outweigh the disadvantages. However, as I shall indicate in a moment, the choice of an appropriate mechanism for the settlement of an international dispute depends upon the nature of the dispute and the particular circumstances involved.

I turn now to the possibility of resorting to the International Court of Justice. Article 36 of the Statute of the Court stipulates that the court has jurisdiction to hear all cases which the parties refer to it. Article 38 defines the law to be applied.

The advantages of resorting to the International Court of Justice may be summarized as follows. The Court provides:

1. Continuity and uniformity of case law.
2. Greater legal certainty.
3. Continued development of international law.
4. Independence of the judges.
5. Immediate availability.

6. An established and effective procedure.
7. A final and binding settlement of the dispute.

It is important, I believe, that we in Canada understand fully that it is possible now to use regional chambers of the Court and that this might make the Court more attractive than was previously the case. The power to form chambers consisting of three or more judges for dealing with particular categories of cases is expressly recognized by the statute of the court. The parties are free to request that their dispute be heard and determined by a chamber rather than by the full court itself, but any judgment given by a chamber is considered to be a judgment of the court.

The chamber system has never been used. In 1970, Mr. William Rogers, then Secretary of State in Washington, observed that greater use might be made of the chamber of the court in order to relieve apprehensions about submitting disputes to the court *en banc*.

It is important to observe that the statute and the rules can be used to achieve the same result as when the parties set up an *ad hoc* arbitral tribunal.

Under the new rules adopted in 1972, the parties will be consulted about the composition of an *ad hoc* chamber to deal with a particular dispute. It would be possible, therefore, for the parties to a regional chamber—for example, Canada and the United States—to choose judges from outside the region, if that was thought to be desirable. In short, the system has become sufficiently flexible to permit of an *ad hoc* chamber of the court in theory but an arbitral tribunal in practice. This procedure might be attractive to Canada at some stage in the future.

The major factors that contribute to the reluctance of states, including our own, to seek the services of the court are, as I see them, as follows:

1. Unfamiliarity with the forum.
2. Length of time required for litigation.
3. Costs of litigation.
4. Dissatisfaction with the composition of the court.
5. A general dislike of court going.
6. Lack of confidence in the rules and standards to be applied.
7. Attachment to national sovereignty and the dominant importance of national interests.

Numerous as these factors may be, few if any of them would prevail over the genuine intention of a state to settle a dispute by resort to judicial settlement.

At the risk of over-simplification, it may be said that the basic cause of states' disinclination to use the International Court of Justice lies not in minor technicalities but in a lack of will to rely on third party adjudication.

The truth is, Mr. Chairman, that in contrast to the inter-war period, states have moved away from the idea of judicial settlement as a central part of their concept of the development of international order. It is quite possible that there will be a swing back and I for one hope that there will be, but at the present time it seems that the preferred method of dispute settlement is one that emphasizes flexibility and freedom to control the proceedings and the outcome.

Now I may move to point 4, Mr. Chairman.

Senator Carter: Mr. Chairman, before the witness goes on to the next heading, I wonder would he mind repeating the disadvantages and the advantages. I got 1, 2, 3 and 4 of the advantages but then he was getting ahead of me.

The Chairman: This is on the judicial process?

Senator Carter: Yes.

Professor Macdonald: Mr. Chairman these do not purport to be exhaustive. They are a few of the facts as I see them. It appears to me that the International Court of Justice provides as advantages the following:

1. Continuity and uniformity of case law, because of course it is a permanent body.
2. Greater legal certainty.
3. There is the continued development of international law.
4. There is the independence of the judges, who are elected as a result of a complex procedure.
5. Immediate availability. The court is there and it is available and one is not waiting for an arbitral tribunal to be struck.
6. It is an established and effective procedure.
7. It has a final and binding settlement of the dispute.

Senator Carter: And the corresponding disadvantages?

Professor Macdonald: Again, Mr. Chairman, and simply as I see them and without attempting to be exhaustive, they are:

1. Unfamiliarity with the forum. Most lawyers and diplomats and attorneys do not have occasion to go to the International Court and it is a rather frightening prospect from the procedural point of view—so there is unfamiliarity with the forum.
2. The time required for the litigation. Something has been done in the last little while to improve that but there are some horrendous examples of cases stretching out over months and months.
3. Costs of litigation. It can be expensive.
4. Dissatisfaction with the composition of the court. This was a factor that was expressed particularly strongly after the cases in Southwest Africa.
5. The general dislike of court-going. I think that applies domestically as well as internationally.

Senator Grosart: But not to the lawyers.

Professor Macdonald: But not to the lawyers.

6. The lack of confidence in the rules and standards to be applied. That was one that was used by our government just five years ago, in April 1970 when acceptance of the compulsory jurisdiction of the court was altered. The reason that the Prime Minister gave was that he did not think there was any international law on environmental control that would be applicable and he did not want to entrust our legislation to a tribunal that did not have appropriate law to apply.

7. Finally, of course, Mr. Chairman, there is the question of national interest, the dominant importance of national interest and the attachment to national sovereignty.

Senator Carter: Thank you.

The Chairman: Thank you, Professor Macdonald.

Professor Macdonald: Mr. Chairman, I might turn to point 4. I have almost finished as there are but five points here.

Point 4 relates to the disputes themselves.

I could turn now to the questions in issue and the most appropriate procedures for their solution. I would emphasize to you, sir and to the members of the committee, that my knowledge of the details comes from the public domain and therefore it is severely limited—indeed, it is very inadequate—and it may be that in the discussion one of the things that would be worth considering would be the desirability of getting more information out on the table in relation to these particular issues.

First of all, the A-B line. As I understand it, the situation there is this. Canada maintains that this line is a maritime boundary as well as a land boundary.

The Chairman: You are now dealing specifically with our salt water boundary disputes.

Professor Macdonald: Yes, Mr. Chairman, four disputes that I understand are current.

The Chairman: As opposed to other disputes. Your are now dealing exclusively with salt water boundary disputes.

Professor Macdonald: Yes. My understanding is that Canada maintains that the A-B line is a maritime boundary as well as a land boundary. The United States maintains, I believe, that this line is only a land boundary.

Among other things, fairly important fishery resources are at stake. Canada has asked for bilateral consultations, partly with a view to getting a process of settlement underway, so to speak; and partly with a view to minimizing any incidents that might occur in relation to the possible seizure of fishermen and fishing boats.

Whether consultations are, in fact, going forward I do not know. From a Canadian point of view, it should be borne in mind that the federal government must, of course, work with the government of British Columbia, and that the government of British Columbia would have to find any proposed agreement with the United States generally acceptable.

Another complicating factor is the attitude of the British Columbia fishermen to the terms of any proposed undertaking.

Finally, there is the need to await the outcome of the Law of the Sea Conference in order to determine how the Continental Shelf will be delimited and in what other ways, if any, the results of the Conference may affect this particular dispute.

Accordingly, I have difficulty seeing a useful place for arbitration or judicial settlement at the present time. Possibly in the future, but at the present time I have difficulty in seeing how these processes would be applicable. What I do suggest is a bilateral fishery agreement between the two countries. This could certainly eliminate the possibility of incidents.

The Chairman: Before you go on to the next item, Dean Macdonald, I wonder if I could ask you to give us a little more detail, if you could, on the A-B line insofar as it is delineated by the Alaskan boundary settlement. I am referring to the last page of your notes. The point I thought the witness might be able to clarify for us was with respect to the line on Annex "C" to your notes which appears to go in a straight line from the mouth of the Portland Canal straight over to Cape Muzon. The islands to the north of that line are American. What was the rationale in that line not taking some sort of detour to come halfway between the American islands and the Canadian islands as it goes out to sea?

Professor Macdonald: I must say immediately, Mr. Chairman, that I do not really know. I believe, however, that it was the result of the Alaskan Boundary Arbitration itself. It is simply a projection, but the Americans do not accept the projection seaward, as I understand it.

The Chairman: They want it to come down and then go out in some fashion.

Professor Macdonald: Yes.

The Chairman: But they accept that that line is part of the settlement.

Professor Macdonald: Yes.

The Chairman: At least as far as it is shown, it would seem that we won the settlement, not that we lost it.

Professor Macdonald: On that point.

The Chairman: Would you continue, please?

Professor Macdonald: Mr. Chairman, the second dispute has to do with the Machias Seal Island in the Bay of Fundy. My understanding is that what is at stake here is a lobster fishery. The island is also used as an anchor point for Canada's fishery closing lines and, therefore, it is important to Canada for that particular purpose—although its importance for this purpose may be somewhat diminished as a result of the conclusions of the Law of the Sea Conference.

I understand that the United States has claimed, or now claims possession of this island. But I do not know the basis for that claim. Apparently the United States has suggested arbitration and apparently Canada has refused on the ground that no *prima facie* case has been made out.

Senator Connolly: You mean for the sovereignty of the island?

Professor Macdonald: Yes, senator.

The Chairman: Our position being that there is nothing to arbitrate.

Senator Connolly: And that is our territory.

Senator Grosart: Which, of course, is always everybody's position in every dispute.

Professor Macdonald: The United States has expressed disappointment at Canada's unwillingness to arbitrate and Canada has offered to enter into discussions and

consultations as to the basis for the United States' claim. As far as the lobster resources are concerned, we could seek a bilateral fisheries agreement that might settle the fisheries issue at least temporarily. As far as the claim to sovereignty is concerned, discussions could be started with a view to clarifying the facts, identifying the claim and gathering reliable information.

An independent rapporteur could be appointed to clarify the facts and report back to the parties. That particular technique has been used successfully in Europe on a number of occasions. For example, in the boundary dispute between Greece and Bulgaria in 1920.

Looking into the distant future, there could be a possibility of arbitration or resort to a chamber of the International Court of Justice over the Machias Seal Island. However, both procedures may be premature at the present time. The usual preliminary procedures have not yet been resorted to, let alone exhausted.

Thirdly, Mr. Chairman, there is the delimitation of the Continental Shelf of Georges Bank in the Bay of Fundy. The area in question is promising as an oil-producing area, but the geography is unusual and, therefore, the problem of delimiting the Continental Shelf is difficult. As I understand it, the United States alleges that since there are "special circumstances", namely, a very deep trough in the sea bed, the Shelf should be delimited in a way that, in effect, will be more favourable to the United States than it will be to Canada. In this situation it seems to me that Canada is once again faced with the thorny question of who owns the Continental Shelf, the Dominion or the provinces. Presumably, it will be difficult to negotiate with the United States until our own internal situation is clarified and the results of the Law of the Sea Conference are evaluated.

Accordingly, I am inclined to suggest that this is another situation not yet ripe for arbitration or judicial settlement. It is one which requires, rather, the attention of technical experts and diplomatic negotiators.

Finally, Mr. Chairman, I deal with the extension of the boundary from the Straits of Juan de Fuca. Although there are "special circumstances" here, Canada has not argued them. I must confess that I have very slight, indeed most inadequate, information as to the details of this dispute. Apparently both countries have accepted the equidistant line now in use.

The Chairman: Before you leave that point, Dean Macdonald, if I could just elucidate for other senators here, since I come from that area, the Straits of Juan de Fuca do not run directly west. They are tilted on about a 45-degree angle in a north-westerly direction as one heads towards the sea. So the equidistant line between the south end of Vancouver Island and the north side of Washington state is on about a 45-degree angle. If you project that line out to sea, you have a much different situation than if you stop as you enter the ocean and then go out in a westerly direction parallel to the 49th parallel. The difference is a huge pie-shaped piece of territory which would involve a great many square miles by the time you got to the 200-mile limit.

Professor Macdonald: I see. Thank you, Mr. Chairman.

The fifth point consists of one or two brief conclusions. First, the selection of an appropriate dispute settlement

mechanism varies with the requirements of each dispute. Everything depends upon the particular circumstances and the actual dispute.

The range of the controversies to which I have referred are, in my judgment, too broad to be squeezed into any general framework. I do not see the cases as necessarily linked together, or as deriving from the same event, such as is the situation, for example, with claims for indemnification following the nationalization of entire economic sectors. Accordingly, I tend to be somewhat opposed to the idea of a comprehensive arbitration agreement with the United States. I believe that in international, as in domestic law, the concrete takes precedence over the abstract. Therefore, we should take each of these situations one at a time, starting with the obvious need to elucidate the facts and evaluate the arguments.

Secondly, with the possible exception of the Machias Seal Island case, I see no appropriate resort to arbitration or judicial settlement at the present stage, bearing in mind that I am inadequately informed about the extension of the boundary at the Strait of Juan de Fuca. Nor do I perceive any impressive public demand for arbitration or judicial settlement in the absence of the non-exhaustion of other procedures, such as those listed in article 33 of the Charter of the United States. Far from there being a public demand in Canada, there is probably an underlying opposition to any decisive step that could lead to the loss of resources in the present economic era.

Public attitudes in our country, not to mention international constitutional ambiguities, will obviously affect the solution of these differences.

Thirdly, I am, myself, strongly in favour of Canada supporting the International Court of Justice by using that court. The best way to support the court, I suggest, is to use it, but I am not persuaded that a suitable case has yet presented itself. Such a case may develop from one of the situations discussed above, or almost inevitably from the fallout of the Law of the Sea Conference at Geneva. When it does, I believe we should show our commitment to judicial settlement by going all the way with the court. Meanwhile, I believe that fact-finding, inquiry and negotiation are the procedures most likely to be useful in the near future.

Mr. Chairman, that completes the few remarks I wanted to make. I thank you for having allowed me this opportunity to make them.

The Chairman: Thank you, Professor Macdonald, and thank you also for your thoughtful and comprehensive preparation and report. I will ask Senator Grosart to commence the questioning.

Senator Grosart: May I add my thanks, Professor Macdonald. Certainly you have, if I may use the phrase, covered the waterfront more than adequately for our purposes.

You began and concluded with a comment on public opinion in Canada as it relates to the whole question of arbitration or judicial settlement on a compulsory basis. At the same time, you suggested that we had not done badly in the arbitration cases. It seems to me that what Canadian resentment there is goes much further back

than the cases to which you referred—as far back as the New Brunswick-Maine boundary (the Aristook) where we have a ridiculous looking boundary line, or even to the Columbia River, the Astoria case. These are not necessarily arbitration cases, but are instances where large parts of Canada were lost as a result of international disputes. Would you agree that that may be more significant than the comparative equity of the arbitration cases you mentioned?

Professor Macdonald: Yes, I certainly think that is a very strong point. My view tends to be that, as time has gone on, the relationship with the United States improved. I think it has only been, really, in rather recent times that the relationship has become as good as it was in the 1950s and 1960s. As you quite rightly say, it wasn't that way in the last century; it wasn't that way at the turn of the century; it wasn't that way through the reciprocity campaign or during the First World War, or for a good part of the interwar period. It is something that has been growing, and I was attempting to see some of these arbitrations along the way as indicators of a better relationship and as facilitators to good neighbourliness. I do agree that if you take the longer perspective and go back to the beginning, so to speak, it may not be quite as rosy as I have painted it.

The Chairman: Senator Grosart, you forgot to include the fact that we were allowed to outbid in the purchase of Alaska.

Senator Grosart: Of course. If you want to go back, we lost Louisiana, too. We had it once.

You mentioned Mr. Pearson when he proposed the principles. I do not believe he was Prime Minister then.

Professor Macdonald: He was in Opposition at the time.

Senator Grosart: In commenting on that, you seemed to indicate that your view was that he was proposing principles relating to the obligation to peaceful settlement rather than to the methodology. I have not read them for a long time, but my impression was that it was the other way around—in other words, that he was suggesting that we might come up with principles that had more or less the effect of legal precedence. Would that not make a great difference?

Professor Macdonald: The query that I am raising, really, is whether that is desirable, given the ever-increasing complex of principles and rules that are applicable to the relations between the two countries. It is getting to be somewhat difficult even now to sort out the applicable rule or principle when we tote up all of the treaties, the obligations, conventions, and so forth. I just put a query against building a new overarching tier, so to speak, on top of everything that is there already.

Senator Grosart: But is that not the way we have made domestic law work to the extent it is working? Let me put it another way. What principles would you say there are that derive directly from whatever arbitration or other types of settlement have gone on, such as, for example, the *I'm Alone* case which you mentioned, the liquor agreements and all the other cases? Surely, some principles have emerged from those cases that might be

regarded, certainly as an argument, as having some binding effect. Would you say there are some rich principles?

Professor Macdonald: Yes, indeed.

Senator Grosart: The Trail smelter case would be one example.

Professor Macdonald: Yes, indeed. I do not want to get into the *I'm Alone* case, because I know you are an expert on it, a very great expert on it. The Trail smelter case and the *I'm Alone* case are, I think, two of the most important arbitrations that have been held on the international scene, and it is not insignificant that they took place between Canada and the United States.

If I could just relate that for a moment to my earlier point, Senator Grosart, I was simply trying to suggest in my opening remarks that we have had an experience with international arbitration and claims commissions. It may not have been the best in every instance, but it is a fairly extensive experience. The Canadian people are used to dealing in that way. We feel, I think, not uncomfortable with arbitration tribunals and claims commissions, and working with legal principles. I was simply suggesting that this is in our tradition; it can be carried forward, and if we can find an appropriate case, we can go that route.

To go back to the specific question you raise, I can only say that I agree completely with your suggestion that some of the principles to come out of these tribunals have been, and are, of the utmost importance to Canada-U.S. relations. Indeed, one could go a little further and say of utmost importance to general international law. The contribution of the Trail Smelter case to the law of state responsibility, for example, is very, very great. It was an absolute precedent-making kind of case.

Senator Grosart: In the hottest area.

Professor Macdonald: Yes, in the hottest area.

Senator Grosart: That is why I thought of my second question as being more or less consequential on the degree of success of the arbitration. Surely, out of those come some principles, and would you not agree that the way to go now might be to recognize some of these principles as a starter, to say, "We agree with the smelter case. If it happens the other way we will expect you to take the view that the arbitration tribunal took in that particular case." Surely that is the way to build law, by recognizing certain principles as precedents. Do you see a fair foundation between the two countries? If you were asked tomorrow to say, "Here are principles you should both agree to as having some basis of arbitral or judicial foundation," what would you come up with? The reason I ask this is that we are always talking about irritants. It would be interesting to find out if we have some common ground.

Professor Macdonald: I think we have enormous common ground. I suppose the way to do that would be to comb through all the major arbitral holdings and rulings of the various claims commissions and attempt to codify the standards that have been articulated. I wondered, as you were putting the question, if that is possibly what you had in mind, that perhaps the time had come to codify these particular rules.

Senator Grosart: Yes.

Professor Macdonald: I think we would find that many of them are already part of customary international law, and others of them have been incorporated into general international law. For example, the ruling in the Trail Smelter case became in part the ruling of the International Court of Justice in the Corfu Channel case. That in turn has been taken up by the International Law Commission in its current efforts to codify the law of state responsibility. When that comes out no doubt the government will very seriously evaluate it and subscribe to it, and the American Government will be doing the same thing. On the particular point that the Trail Smelter case dealt with, air pollution, I would be inclined to say that it is already a binding obligation between the two countries.

Senator Grosart: On the question of the International Court of Justice, I take it that your preference at the moment, if you had to choose one single way to go, would be for us to recognize these Regional Chambers, as they call them at the International Court of Justice. I think you say they had never been used.

Professor Macdonald: It has never been used.

Senator Grosart: How would it work in respect of Canada? Let us say there was fairly general agreement that this might be a good way to go on one or all of these salt water disputes, just exactly how would it work? I am asking the question in relation to the major concern that both sides would have, which would be the terms of reference, the procedures, the composition of the court in terms of personnel and so on, and the binding effect. How would this work under the present rules of the court?

Professor Macdonald: Perhaps I could come at it slowly. I am rather interested in seeing us work our way back to the International Court of Justice, after the alteration of our declaration of acceptance of the court's jurisdiction in 1970. It seems to me that the provision for chambers, and the amendment to the courts rules that allow parties now much greater flexibility than they ever had before, perhaps provides us with just this opportunity. How it would work would be that we would nominate the sitting members of the court whom we wished to sit on the chamber. It is fairly clear that our nominations would be respected, so we would get the kind of chamber we wanted. The chamber could consist of experts, particularly strong judges in our view, judges with expertise in law of the sea matters, for example; the chamber could sit in North America; it could leave The Hague and come to our side of the Atlantic, which I think would give a presence to the court here as well as showing our support for it. It would give us all the institutional and traditional values of the court as opposed to an *ad hoc* arbitration tribunal.

It is for this reason that it seems to me we might be able to get the best of all worlds by doing that. The argument against it I suppose is if in one of these cases we indicated we wanted something more specific, we wanted something more *ad hoc*, that we wanted to control the proceedings and the results more significantly than would be possible under the court. As I indicated, that seems to be the way that other countries are going.

They seem to prefer a procedure that gives them maximum control and flexibility.

The Chairman: Perhaps I could interrupt for one moment just to clarify this in my mind. As I understand you, you are saying that the disputants can choose the members of the court, if they agree between them?

Professor Macdonald: Pretty well.

The Chairman: Which you could not do, of course, with the whole court.

Professor Macdonald: Exactly.

Senator Carter: What would happen if one side chose somebody that the other country did not want or objected to? Who decides?

Professor Macdonald: Eventually the president of the court. This is done by the President of the International Court of Justice. Of course, since it depends on consent anyway, they would just keep going until they could get a chamber that would be agreed.

Senator Carter: Almost like choosing a jury.

Professor Macdonald: Like choosing a jury I suppose.

The Chairman: The disputants would probably only agree to go to the court if they first agreed on who the panel would be; that would be part of the agreement.

Senator Grosart: Probably the other way round, they would agree to go subject to agreement on the composition of the court. Professor Macdonald, you seem to feel that in these four disputes the negotiating stage has not been exhausted. I would think the impression I have from listening to some of our officials here and in the briefings on the recent Canada-United States meeting, was that not only are the facts exhausted but the officials on both sides are. How do you say, "We have got to wait longer"? How do you determine this? I am quite sure if you go to both groups of officials they would say, "We have all the facts. We have done all the negotiations as we were told. We are 'phoning each other back and forth all the time." There is not much evidence in this kind of dispute, particularly boundary disputes, that you will ever improve the situation by negotiation, because how are officials going to agree when it is a political decision?

Professor Macdonald: All I can say to that is that a lot of the information does not seem to be in the public domain.

Senator Grosart: No, it isn't; that is quite right.

Professor Macdonald: Unless therefore one has access to other information it is very difficult to know what the state of play is. I for one simply do not know the basis on which the United States claims to own Machias Seal Island. I think if that were made public and brought out into the open so that there could be a fuller discussion of it and of the Canadian position by lawyers, the Canadian Bar Association and others, it might help in crystallizing public opinion. That may be one that could be close to arbitration.

Senator Grosart: This is where we would use the European rapporteur concept. Where has that been used? I do not remember a case. It would be interesting to know how it works. How far does the rapporteur go when he has to say at some point, "Here are the facts"?

Professor Macdonald: I think generally speaking he has the freedom to oscillate between the two governments concerned; he simply gets a list of claims, and he makes absolutely sure that the claims as listed are exhaustive as the government wants them; he acts as a sort of go-between.

Senator Grosart: Kissinger.

Professor Macdonald: Kissinger, yes. He attends to the technical side of the thing, the maps, the boundaries, the scientific information and that sort of thing so that he can bring the two of them together or to such a point where they will say "Yes, we have a dispute, we have taken it as far as negotiation will take it." It may be—and here I am in the dark—that if negotiation has been exhausted in these disputes then perhaps we are much closer to arbitration than I was aware.

Senator Grosart: To what extent are these problems being compounded by our insistence in Canada on more or less secrecy in foreign affairs? You mentioned the fact that the public generally do not know what the facts are in these disputes. I come back to my old complaint about insistence on the prerogative of the Crown. Here is a case where you would think Parliament could make some input if the facts were put before Parliament. I ask that question for various reasons, immediate historic reasons. We are probably the most backward country in the world in getting away from the prerogative of the Crown in international affairs.

Professor Macdonald: That could be. I do not know the answer, Senator Grosart. I suppose that in many cases the officials feel that they would give something away if they make public facts about issues of this nature. There may be some feeling that if they bring everything out on to the table, our position would be somewhat weakened.

In contrast however I am rather struck by the fact that for some years now the Harvard Law School students have been openly debating in a moot court case this Machias Seal Island dispute and one wonders where they are getting the information. I myself would have thought, as we go down the road in these things, that there is great interest in Canada in involving the lawyers of the country, the Bar Associations and so on at least to the extent of appraising them of the full facts of the situation so that the experts outside government can turn their minds to some of the legal issues and hopefully make a contribution to an equitable and worthwhile settlement. All that is impossible until such time as the information is available.

Senator Grosart: Thank you.

Professor Macdonald: I would just add that I do not know to what extent people have asked this.

Senator Grosart: We have been asking in this committee, but not with great success.

Senator Rowe: The principal question I was going to ask has already been raised by Senator Grosart, but may

I raise a rather inconsequential matter. I was fairly young at the time of the *I'm Alone* episode, but I was always under the impression that it was a Newfoundland owned vessel. I know the captain, Captain Jack Randall, who was a folk hero of Newfoundland, was regarded as a modern day pirate. I was under the impression, and I think Senator Carter was too, that he was the captain-owner of the vessel and that it was a Newfoundland vessel, but this apparently is not so.

Professor Macdonald: It was registered in Canada but the substantial ownership was American.

Senator Rowe: Is that so? On that, it seemed to me that although Newfoundland was an independent dominion of the Commonwealth at the time, I had the impression that the United Kingdom, the British Government, had somehow intervened or made representations. Was that the case?

Professor Macdonald: I don't believe so, senator.

Senator Carter: I do not quite understand how Canada got into the act, if it was an American owned vessel and skippered by Newfoundlanders.

The Chairman: The witness has said it was registered in Canada, which is the only criterion.

Senator Carter: Registered in Canada?

The Chairman: Yes, senator, like the Liberian ship owned by a Greek and insured by a Frenchman and crewed by Lebanese and so on, but it is still a Liberian ship.

Senator Grosart: It was probably Newfoundland rum in Canadian bottoms.

Senator Rowe: I remember reading in my student days—and I do not remember who wrote this but it was a Canadian historian—about Canada's unfortunate history vis-à-vis the United States with arbitration. He cited as I recall—and, again, speaking 40 years back—three cases that you have named. One was the Maine-New Brunswick case, another the Alaska-British Columbia case, and the Washington State incidents or disputes. He pointed out that in all these three major cases Canada came off the loser. He implied there somehow that in arbitrations of that kind between Canada and the United States it seemed almost impossible for Canada to get a fair deal anyway because of the old elephant-and-mouse business. I got the impression you were advocating that we make greater use of the International Court and Justice and, presumably, lesser use of the individual arbitrations. Is that your opinion? Do you agree with this idea?

Senator Grosart: He has already given his opinion, very clearly.

Professor Macdonald: I think Senator Grosart has given the answer to that, senator. Certainly, all those early arbitrations that were carried out by Great Britain with the United States on behalf of Canada or affecting Canada, did not always come out to our advantage.

Senator Rowe: I got that answer, but I did not make myself clear on this. Is it your opinion, or do you agree with the inference I drew from this writer's statement,

that in individual arbitrations between Canada and the United States Canada is likely to come off the loser?

Professor Macdonald: Not necessarily.

The Chairman: If I understood your earlier testimony, Dean Macdonald, I think that your view was quite the opposite, that arbitration had not proved or would not prove to our disadvantage. I think I might interject one observation at this point. If we go back far enough in these examples, we really get away from the principle of arbitration and we get into questions of empire building. By going back to some of these examples, you are not really putting a case for or against arbitration.

Senator Grosart: I think you are, because it is all empire building. In these four cases, we are trying to build our empire.

Senator Carter: I would like to follow your line of thinking. About 100 years back, Canada did not have the status it has today and our external affairs were handled by Great Britain. In those days Canada was not master in her own house in that respect and, consequently, there was a trade-off between the United Kingdom and the United States in their interests rather than in the interests of Canada. Today the circumstances are quite different, where Canada is master in her own house as far as external affairs are concerned. So the set of circumstances that would apply to these old settlements would not apply today.

The Chairman: That was the point I was making.

Professor Macdonald: Yes, it is an entirely different situation.

Senator Rowe: On the matter of the International Court of Justice I got the impression that there has been a general dissatisfaction with it—I say that purely as a layman, I am not a lawyer—over the delay that has occurred from time to time with cases which have been referred to that court.

Dean Macdonald, you suggested that we should make greater use of the International Court. That being so, if we did make greater use of it, and presumably other countries made greater use of it as well, would the delay factor not be aggravated and intensified?

As a supplementary to that question, if time is a disadvantage in referrals to the International Court, is there any way that that can be remedied?

Professor Macdonald: Honourable senators, the court has moved effectively to improve its performance in this area. The criticism was launched particularly at it as a result of the *Barcelona Traction* case which did involve Canadian, Toronto, interests. The court took an unconsciously long time in reaching a decision in that case. In fact, the mountain laboured mightily to produce a mouse. There was so much criticism that the court reacted to it, and recently its judgments have been coming out very quickly. I would be inclined to the view that the judges are conscious of the need to get their opinions out in a much more rapid time frame than previously. I do not think that that is any longer a serious criticism.

Senator Carter: If I understood you correctly, Dean Macdonald, you do not see any common principles in the

disputes already settled or referred to which could be applied to the present disputes, and I gather that you do not see any common threads running through the different disputes which have not been settled. Is that a fair statement?

Professor Macdonald: No. Mr. Chairman, if I may say two things here: First, I agree completely with Senator Grosart that there are all kinds of common threads in the jurisprudence that run through the previous arbitrations. There are commonly accepted principles that have been articulated and further refined by these tribunals. But in relation to the present disputes which we talked about, I am inclined not to link them for purposes of settlement.

There are commentators in the country who would, I think, like to see a comprehensive arbitration agreement with the United States in which we would, in effect, say, "Let's get together now and settle all these things and sort of pair them up."

Senator Carter: Do you mean in a package deal?

Professor Macdonald: Well, yes. We could say that there were special circumstances in regard to the Georges Bank in the Bay of Fundy, for example, and special circumstances out west with respect to the Straits of Juan de Fuca. The idea would be to deal with those at once. Or we could say that they are all boundary disputes or at least some of them are.

My preference, which is one of caution here, would be to take each one of them individually, subject to what might happen further down the road as a result of what may come out of the Law of the Sea Conference. I could quite see a major dispute with the United States on Law of the Sea matters—fisheries, delimitation of the Continental Shelf, mineral resources. I can see a major dispute going to the International Court. There is obviously a connection there in that kind of dispute.

But I was really rather in opposition to the view that we simply say that: "We have half a dozen disputes now outstanding with the United States. Let us bring them together in a general arbitration tribunal." I would prefer to take one at a time.

Senator Carter: I gathered that. I did not express myself as clearly as I should have, but even taking them one at a time you did not seem to see any set of principles already agreed upon that you could apply to any single one. That is what I was trying to get at.

Professor Macdonald: In other words, what law would be applicable?

Senator Carter: Yes, or what agreement. What precedent exists that could be applied to the disputes now unresolved?

Professor Macdonald: I suppose, Mr. Chairman, the applicable precedents would be the relevant ones. If it is a question of the ownership of Machias Seal Island, there are the questions of occupation, of user, of prescriptive right, of the significance of the lighthouse that is there, and so on. Presumably, that is not applicable to the A-B line. There is a different set of considerations there.

The Chairman: You would not be confined to Canadian precedents or to Canada-U.S. precedents. You would have the world precedents.

Senator Carter: Oh, yes.

Senator Grosart: Both sides argue, of course, that if the precedent is against them, it does not apply in the particular case.

The Chairman: That is a complaint people have about lawyers.

Senator Carter: You did suggest, I think, that in the case on both coasts some sort of interim bilateral agreement could be worked out with respect to fisheries resources. You suggested that you could take different phases of the dispute and deal with them one at a time.

Professor Macdonald: Yes, honourable senators. That might be something of a holding operation in that it would temporarily ensure that there would not be seizure of fishing vessels and that sort of thing. I do not know whether that is possible, but I certainly think it could be explored. Something could be worked out without prejudice to a final determination of the respective claims.

Senator Carter: Are there any precedents anywhere where the land boundary lines have been extended seawards?

Professor Macdonald: I am sure there are, but I cannot pinpoint any at the moment.

Senator Carter: I would think in the case of the Machias Seal Island dispute Canada could say, "We have occupied this island. We have put our lighthouse on it and we have claimed sovereignty on it because we have occupied it." On the other hand, the United States says, "Well, it is on our side of the boundary line."

Senator Connolly: Senator Carter, in the northern European waters they have drawn a median line and extended a land boundary seawards. Is that not an example of what you mean?

Professor Macdonald: Yes, indeed, Senator Connolly. You are quite right.

Senator Carter: I see.

Professor Macdonald: The precedents on the Machias case are interesting, if it is to turn on a question of occupation and effective use, because there are some important judgments of the International Court and of other tribunals also on exactly that kind of situation.

Senator Connolly: Would it be the use of just the land or the waters surrounding the land?

Professor Macdonald: I suppose that the island would carry its own territorial sea with it, senator.

The Chairman: Is the lighthouse we have there occupied?

Professor Macdonald: I do not know.

Senator Grosart: The Americans had one and they abandoned it.

Senator McElman: We are in possession, Mr. Chairman. We have one man aboard the island at all times.

The Chairman: Manning the lighthouse?

Senator McElman: Yes.

Senator Grosart: Yes.

Senator McElman: Mr. Chairman, I was interested in Dean Macdonald's comment with respect to possible complications arising with respect to the Machias Seal Island dispute in relation to the unsettled problem as between the provinces and the Government of Canada over the ownership of the Continental Shelf. In what sense did you foresee this complicating the problem further?

Professor Macdonald: When I mentioned the problem with respect to the ownership of the Continental Shelf, senator, I was referring to the Georges Bank in the Bay of Fundy, not to the Machias Seal Island. There is a question of whether New Brunswick would be involved or Nova Scotia would be involved in that, or whether the Dominion alone would be entitled to enter into negotiations with the United States.

Of course, we have the advisory opinion of the Supreme Court of Canada on the question of the ownership of the Continental Shelf beyond the territorial sea, but it is common knowledge that this question is far from clear in the eyes of many of the elected representatives at the provincial level. I see this as a complicating factor. The Maritime provinces might very well feel that they should be involved if there are resources.

Senator McElman: In constitutional terms, do they have a right of involvement?

Professor Macdonald: There is a difference of opinion on that. The province of Quebec takes a different view than that of the Supreme Court of Canada, and there are provincial premiers who have publicly expressed a view contrary to that of the Supreme Court of Canada.

The Chairman: One might disagree with the court, but the court has made its ruling that it is federal jurisdiction.

Professor Macdonald: Yes.

The Chairman: Therefore, for purposes of international negotiation, the federal government could enter into negotiations, and if it later wished to pass on some of the benefits to a province or provinces, it could do so.

Professor Macdonald: Yes.

The Chairman: As far as the law in Canada is concerned, the Supreme Court of Canada has said, has it not, that it is federal jurisdiction?

Senator Grosart: In a particular case.

The Chairman: Was that case confined to oil rights, or was there a larger jurisdiction involved?

Senator McElman: That is the B.C. decision.

Senator Grosart: There were many aspects of the other case that were not even argued in the B.C. decision. Many of the arguments that came up in the East Coast case were not even argued in the B.C. case. That is the provincial position.

Professor Macdonald: I am not saying that it is an insuperable position, but I think it is fairly clear that it is a complicating factor. It would certainly be much simpler if that situation did not exist. It is evident that it does exist and that feelings run very high on it. It would seem to me to be something that would have to be worked out before we would want to arbitrate. That is simply the point I am trying to make. Arbitration and judicial settlement, although I like them both, come rather towards the end of the ascending scale of dispute settlement techniques that are set out in, for example, the Charter and the Declaration on Friendly Relations. They all start by promoting negotiation, inquiry, fact finding, mediation, conciliation. It is only towards the very end that one gets onto arbitration and judicial settlement, which means that these are somewhat formalized techniques. I was merely suggesting that the constitutional situation in our country is a factor that has to be taken into account before we decide that we have gone as far as we can go into all the facts and move on to arbitration and judicial settlement.

Senator McElman: But constitutionally there is no requirement on the part of the Government of Canada to involve the provinces directly in any arbitration or negotiation with the United States?

Professor Macdonald: No.

Senator Grosart: Unless there were some aspects that came under section 92 of the British North America Act.

Professor Macdonald: Yes. Of course, the policy considerations would probably be such that the federal government would want, at a very early stage, to keep the provinces fully informed.

Senator Grosart: We learned that lesson in the Columbia River case, or should have learned it.

Professor Macdonald: Yes.

Senator Carter: I wonder if I might ask Senator McElman a question, Mr. Chairman, or perhaps the witness can answer it. About a year ago, as Professor Macdonald has pointed out, there was some dispute arising out of the fact that an American Coast Guard confiscated lobster traps belonging to New Brunswick fishermen around this island. What resulted from that action? Was there a court case or any representations made?

Senator McElman: There was no reference to any court. I do not know what settlement may have been made in respect of the traps themselves.

Senator Grosart: There was an official protest.

Senator McElman: There was another occasion where some fishermen just took out their shotguns and blasted away at each other as well.

The Chairman: That is because it involved the East Coast, Senator McElman.

Senator McElman: We practise on fisheries officers occasionally as well.

Senator Connolly: Professor Macdonald, again from all of us, thank you very much for coming this afternoon.

Your remarks have been very helpful, and we are delighted to have you with us.

You said that in 1970 Canada recognized the International Court of Justice. What was the form of that recognition?

Professor Macdonald: I do not believe it was a recognition of the court. It was a revocation of our acceptance of the court's compulsory jurisdiction, and the substitution of a new declaration which was considerably more restrictive than the earlier one. If I could put it a little more briefly, we simply informed the Secretary General that we would not permit our Arctic pollution legislation, or any of our legislation pertaining to marine resources, to be a subject of litigation before the court.

Senator Connolly: In other words, we asserted the jurisdiction of our own courts in respect of that matter?

Professor Macdonald: We asserted our own jurisdiction and said, almost simultaneously, that we would not allow that jurisdiction to be challenged by any other country before the International Court of Justice.

Senator Connolly: But there is nothing that we can do to prevent another country from going before the court and challenging our jurisdiction. I suppose the practical result is that if the court should find against us, we would not be bound to recognize the finding.

Professor Macdonald: No other country could take us before the court without our consent, senator.

Senator Connolly: Of course, but if a country went *ex parte* and got a hearing, we would pay no attention to any finding of the court.

Does the United States recognize the International Court of Justice? Does the United States accept the decisions of the court?

Professor Macdonald: It does, subject to the controversial Connally amendment which, in effect, means that they recognize the court, save in matters pertaining to the domestic jurisdiction of the United States; and matters of domestic jurisdiction of the United States are to be determined by the United States.

Senator Connolly: In other words, if Canada and the United States were to go before the court, they would probably have to agree upon the terms, including the acceptance of the ultimate decision?

Professor Macdonald: Yes, exactly. I think the proper way to go before the court would be under a special agreement between the parties referring a particular dispute to the court.

Senator Connolly: Is there a Canadian on the bench of the International Court?

Professor Macdonald: Not at the present time. John Read was the first and only Canadian member of the court. He was a member of the court from 1946 until the mid-1960s.

The Chairman: Why has he not been replaced?

Professor Macdonald: I am not even sure that we have nominated anyone, but the seats go around, so to speak. There used to be a so-called Commonwealth seat, and I

think it was that seat that John Read was elected to. That seat went by the boards after the southwest Africa case in which Sir Percy Spender cast the deciding ballot. Now there is competition for the seats.

The Chairman: I did not mean to suggest that there was one seat for each country.

Senator Connolly: Have you any idea at all of the costs involved in taking a case before the International Court? I realize the costs can vary depending on the case. It could take only one day to try a particular case, but perhaps a month in preparing the case, whereas another case could run for a month and take a year in preparation. Can you give us any idea at all as to the magnitude of the costs? Would they be greater than the costs in domestic courts, or what it used to cost to go before the privy Council?

Professor Macdonald: I expect the costs would probably turn out to be considerably greater than the corresponding costs before the Privy Council, particularly in very large cases. Once again, the court and the international community, to some extent, have reacted quite effectively to the substantial adverse criticism that has been levied against the high tariffs. There is even a suggestion now that there be a form of international legal aid that would be available to developing countries, or that in any event steps be taken to make access to the court attractive when an appropriate case comes along.

The Chairman: Would it be fair to say that the cost would have to be a consideration in dealing with questions of the magnitude of some of the things we are discussing between Canada and the United States?

Professor Macdonald: Yes.

Senator Connolly: The big cost would be the cost for counsel. You get counsel there who command big fees. The court costs are not very extensive.

Senator Grosart: On the question of these interim bilateral accommodations, I was a bit surprised to hear you, as a distinguished international lawyer, suggest this, but you did qualify it by saying you saw it mainly as removing the physical frictions. Would you say generally that this is not the way to go in an international dispute, particularly in fisheries and the case of controversial waters? In, for example, the Bay of Fundy case we came up with a fishing treaty, but this does not settle the dispute internationally because it may be against any third party. Is there not a danger in these bilateral agreements outside of territorial waters between two countries, or even between a group of countries, such as the North Atlantic Fisheries Agreement?

Professor Macdonald: A danger, in the case of bilateralism, that it would weaken our case?

Senator Grosart: No. It is a presumption against third parties. For example, the fisheries treaty says in effect, "We have ten or twelve countries who have trawlers; we are the big fishermen; we are going to carve it up." In effect, as we are saying in the salmon case, we are not going to let anybody else in. In a way it is like two people trying to agree that they can commit suicide, but the law says they cannot.

Professor Macdonald: It is not in the best interests of the fishery resource and potentially ignores the rights of third parties.

Senator Grosart: Particularly on the high seas. I raised the question last week that we seem completely to have abandoned the concept that the resources of the high seas are the last great free goods for mankind, yet our people, who talked to us and briefed us, keep saying, "We are taking a hard line because the Americans are taking a hard line." We seem to have forgotten the essential equity aspects of international law.

Professor Macdonald: I agree. I do not think it is an optimal solution. I was thinking of it merely as a temporary *ad hoc* kind of thing that would perhaps simply take the heat off, if there is heat, and allow the two governments an opportunity to get down to the substance.

Senator Grosart: Yes, you did qualify it. It always seems to me, and it is supported by the evidence we have had in this committee, that we may be missing a tremendous opportunity in not thinking more of extending the powers of the International Joint Commission, for example from fresh water to salt water, perhaps extending them into these boundary disputes. Would you agree that by and large it has been an outstanding success?

Professor Macdonald: Yes.

Senator Grosart: Would you see this as a useful way to go? We know there is some political objection in the United States and so on, but in spite of this do you see this existing vehicle as one we should explore as a possible answer to many of our problems?

Professor Macdonald: Yes, indeed. I think we should certainly consider that. After all, Article 10 is there. As you say, the commission has been extremely successful. It has an impressive track record; it has a tradition; it has established procedures; it has resources, increasing resources in personnel; it has moved into the environmental area in a fairly big way. There is probably a good deal to be said for taking a hard look at how the treaty could be amended to augment the commission's jurisdiction. A consideration on the other side, I suppose, would be whether there is a danger of overloading the commission, of perhaps asking too much of an already very good thing.

The Chairman: And destroying it in the process.

Professor Macdonald: And destroying it in the process. There is the question of specialization and matching mechanisms to disputes. There again, I am inclined to review each of these disputes and, perhaps in the context you raise, ask: Is this appropriate for resolution by the International Joint Commission? How could it be done? We might find that in some instances there would be small disputes that could very well be handled by that way. There might be other instances where it would not be appropriate at all. For example, if we got into a major hassle with the United States on the Continental Shelf, de-limiting territorial sea and so on, I would not see that as appropriate for the International Joint Commission.

Senator Grosart: It would have to be restricted more or less to disputes that concerned only Canada and the United States.

Professor Macdonald: Oh yes.

Senator Grosart: It has always seemed to me to be an anomaly that the Joint Commission set up under the Boundary Waters Commission is unable to deal with the current boundary water problems which are all outside its certainly initial jurisdiction.

Professor Macdonald: It is clear, of course, that the treaty would have to be amended.

Senator Grosart: That is what I say. In those days we thought the only boundary water problems were going to be inland.

Senator Carter: The United States Congress has become increasingly critical of the IJC, and would that not make it difficult to have their jurisdiction extended to salt water disputes and boundary disputes?

Professor Macdonald: Yes, I suppose it would.

Senator Grosart: Except it did not prevent perhaps the most major extension of its powers in the Great Lakes Water Level Treaty. This is probably the greatest extension of its powers in its history. This was by agreement to bring these larger problems under it. As far as I know, except for interested congressmen here and there, there has not been much criticism of that.

Senator McElman: The criticism by Congress is largely on two grounds. First, they take what Congress considers an interminably long time to report and make their recommendations. Secondly, they are dreadfully understaffed. They are both, of course, tied together. I believe it is on those grounds that the major criticisms by Congress have rested.

The Chairman: One of the suggestions made, as in all things informally there, at the Canada-United States Interparliamentary meeting last week, in one of the workshops I attended, was that the resources of the IJC be expanded, that they be given more staff and resources generally.

Professor Macdonald: It seems to me that is almost necessary.

Senator Grosart: Could you tell us the composition of two or three of these arbitration tribunals from which there have been decisions that you regard as reasonably successful and reasonably acceptable to both sides? Give us a picture of them. They were not all exactly the same.

Professor Macdonald: They were not all exactly the same. Some, as I recall, had seven arbitrators, some had five, but the preferred number generally speaking these days is, I believe, three. This is what the Gutt Dam had; it had Judge Roach from Toronto, Professor Freeman from Detroit I believe, and Judge Erades from Rotterdam. We nominate one, the Americans nominate one and there is agreement on the third. I understand that the arbitrations going on in Europe—in Switzerland, particularly—always seem to favour three. Some of them have had five, but the evidence seems to indicate that

these are a little cumbersome to operate and that three people are able, generally speaking, to get through the work expeditiously and provide enough by way of background and expertise to do the job.

Senator Grosart: Have there been any dissenting awards or opinions?

Professor Macdonald: No.

Senator Grosart: I did not think so. That is rather remarkable.

The Chairman: I gathered from the thread of your testimony that you agree that it would be impractical to suggest any sort of agreement between Canada and the United States where disputes regardless of the nature of the dispute, that arose automatically went to a tribunal; that you really have to make individual decisions on individual disputes as to whether you put them forward for settlement before a tribunal, judicial or otherwise, on an item-by-item basis. Would that be fair?

Professor Macdonald: I think so, Mr. Chairman.

The Chairman: At least, to be practical.

Professor Macdonald: It would be practical and it would be the wiser course of action than an open-ended acceptance in advance of jurisdiction in relation to any known or unknown disputes.

The Chairman: Yes, that was of importance. Going from that, I would like to explore in a little more detail the nature of the arbitration, whether judicial or by an arbitration board. As a lawyer, I naturally think quickly, in regard to arbitration, as two parties selecting one each and those two selecting a third—or the two parties themselves, but not too often.

Senator Grosart: I think it is the parties that have insisted on the right to name a third.

The Chairman: I want to ask you about the arbitrations we have had to date—and I am not speaking of the International Joint Commission, which I will come to in a moment. Have they been in the past, or would you visualize in the future, that they would consist of one Canadian, one American and a third from another country?

Professor Macdonald: Yes.

The Chairman: So it would be different from the manner in which the IJC presently operates, which is collegiate.

Professor Macdonald: Yes.

The Chairman: Fine. So the arbitration boards, apart from their greater degree of possible flexibility and informality, would be basically not too different from the regional chambers of the International Court of Justice.

Senator Grosart: It would be very different. Am I correct in my understanding that the judges, the members of the court of the Regional Chamber, are determined by the Chief Justice of the ICJ?

Professor Macdonald: Yes, but more or less on the nomination and with the agreement of the parties.

The Chairman: I think earlier we agreed, when we discussed this a few minutes ago, that probably before the parties would agree to the court sitting on this regional basis, they would insist on knowing who the judges would be.

My other point, which is very close to Senator Grosart's point of a moment ago, is on expanding the role of the IJC. We discussed that relative to salt water matters while Maxwell Cohen, the Canadian co-chairman, was before the committee. Have you given any thought to the establishment of what I might loosely describe as a salt water international joint commission; in other words setting up a separate body so as not to overwork or weaken the present very successful IJC?

Professor Macdonald: No, Mr. Chairman, I have not. Could I just for a moment weave back to what you were saying about the composition and procedure of an arbitral tribunal. I would think that one important and interesting development that has taken place is the acceptance of much greater flexibility on the part of arbitration tribunals. In the past they acted in many ways exactly like courts. Indeed, the comprise in referring the dispute to the tribunal, in some instances charged the arbitrators to carry out their functions in precisely the same manner as they would carry out judicial functions if they were judges. So, apart from procedural differences here and there, the tribunal acted much as a court.

Since the second world war there has been a noticeable move away from that, a move to give the arbitrators much greater scope, much greater freedom, to allow them, if the parties so desired, to play an active role themselves in reaching or suggesting some kind of a settlement. I think I mentioned in my observations that there has been, very interestingly, a move to ask the arbitrators to recommend a solution rather than to make a decision.

Senator Grosart: Don't they become conciliators?

Professor Macdonald: The become kind of conciliators and the very interesting experience is that this kind of procedure has caught on, has become popular. It allows governments to keep on top of a situation to the very end. I do not know any situation that has arisen in the last 15 years in which a recommendation of a so-called arbitration tribunal has not been accepted. So there are very substantial differences here between that kind of procedure and the chamber of the international court. After all, the chamber of the international court would function under all the institutional and traditional rules of the court—the rules of evidence, the rules of procedure, the time limits, the rules applicable to the drawing up of the memoranda and counter memoranda all that kind of thing would be applicable, whereas it would not be in regard to the tribunal.

Senator Connolly: What about the summoning of witnesses? Could the International Court of Justice summon witnesses?

Professor Macdonald: Yes, indeed, sir.

Senator Connolly: And compel attendance?

Professor Macdonald: Yes, indeed sir and has done so and it can take a view, of course—it can go to where the action is, so to speak.

Senator Connolly: Thank you.

Professor Macdonald: On the question of the International Joint Commission, as I indicated, the question is one of overloading. I just throw this point out. I do not know whether a desirable first step might not be to provide more resources, more research staff, more personnel, more financial resources and give it a little more time to digest this large chunk of jurisdiction Senator Grosart has referred to in the Great Lakes water arrangement. Then we would see what happens. It may be that we are better off, if we need a new agency, in creating one tailor-made for the task at hand.

The Chairman: It seems to me that there is a substantial difference as to the nature of the tribunal you use, depending on the nature of the problem you are dealing with. In other words, I can see a permanent agency like the International Joint Commission dealing effectively, as it does, with numbers of questions that arise along an established boundary, in which they are not being asked to decide whether the boundary is on the 49th parallel or the 50th parallel. It would be quite different to decide questions arising at a known circumstance to asking a similar body to go out and create the circumstance. It seems to me that in these seaway water boundary disputes we have not yet decided where the boundary is, and until we decide where it is, it is a little unfair to ask somebody to administer it fairly as between the parties.

Senator Grosart: Except that they would be seized with a boundary problem if it came in the fresh water area. They would have to decide it.

The Chairman: It is a question of degree, admittedly, Senator Grosart. Again, I cannot help but go back to my own situation in acting for a client in drawing a document. It is common in some documents to say that, "if a dispute arises between the parties in connection with this agreement, it shall be referred to arbitration." Personally, I will not allow my clients to sign a document with such a provision, because I want a court to deal with that document, if it is a legal dispute. I will agree to arbitration as to certain provisions in the document, such as a rental escalation which is to be geared to the number of square feet in a warehouse. I do not mind arbitrators deciding what the new rent should be. But there is a distinction there.

It seems to me that the two countries are going to have to take greater care in deciding what mechanism they use to settle the fundamental boundaries as opposed to the mechanism they would use to administer those boundaries, and minor variations in them, once the principles have been settled. This is what gives me some difficulty.

Professor Macdonald: Mr. Chairman, I am a little hazy on this, but I understand that growing out of the Boundary Commission of 1908 or 1909, some kind of joint agency has continued which has the task of indicating when, for example, buoys on the seas get loose, when the demarcation of the boundary at a particular point becomes obscure, and when common access roads fall into disrepair. Apparently there is an agency which has some sort of a limited jurisdiction to keep under surveillance the state of the boundary.

Senator Connolly: Fence viewers.

Proefssor Macdonald: Yes.

The Chairman: They are not charged with the authority to establish boundaries. They keep track of the boundaries.

Senator Grosart: It is the same thing as you have between Alberta and British Columbia at the moment.

The Chairman: Dean Macdonald, would it be your view that in the total context of fishery problems, the future discovery of oil, and so on, no matter what mechanism is used or decided on, Canada would be better off having these questions of salt water boundaries settled now rather than letting them drift into the future for settlement, subject to what you have already said about the Law of the Sea Conference recommendations coming up?

Professor Macdonald: Well, I think it is important that we await the recommendations of the Law of the Sea Conference. I suppose there are two views. One is that if one is not sure of winning, one lets the dispute continue on almost *ad infinitum* in the hope that circumstances will change or that a saw-off can be reached or that one can attain one's objective at some stage in the future and that it is better to suffer the continuance of the irritation rather than to remove it at the cost of losing. The other view is that certainty, stability and good neighbourly relations and a sense of orderliness require one at least to have the outer perimeters of one's territorial bailiwick settled. From that point of view we would say that in the late 20th century the finalization of the Canadian boundaries ought to have occurred.

As a footnote to that, Mr. Chairman, it is not without interest that we are not alone in this problem. As one looks around the world, there is hardly any major country which does not have a series of boundary disputes. One has only to think of Central America, Latin America, the Soviet Union and China, Central Europe, Western Europe, and Africa. There are territorial disputes in virtually every place one casts an eye at.

Senator Connolly: Australia is really the only one which is clear.

Professor Macdonald: So we are not alone.

Another factor involved is the state of public opinion. These territorial disputes seem to attract intense public reaction. Governments, of course, must take into account the reactions of their peoples. The citizenry become very exercised over the basis of the claims, particularly

if there is any thought of losing territories. People become quite concerned about this.

I realize I am hedging on your question, Mr. Chairman. I would be inclined to say that it would be virtually intolerable simply to sluff the whole thing off and to say that it is not important, that we have other priorities and we will move on. I think we should review every agency which is operative in the field, every thing from the International Joint Commission right down to fence watchers, if we have them. We should find out who is doing exactly what, where the problems are, and we should begin to move towards solving them.

Since I do not want to be evasive, this brings me, generally speaking, to preferring the view of getting the thing settled and settled fairly rapidly, save in those situations where it may be politically impossible to do so or extremely difficult to do so. In such circumstances we have no choice, I suppose.

Senator Grosart: Mr. Chairman, is it not so that if there is an overload it is not in the control sector rather than in the decision-making sector? I do not get the impression that the IJC has all that many cases *de novo*, but they have an extraordinary obligation in enforcement of their decisions, as probably no other tribunal in the world has ever had. That is where their staff problem comes in.

The Chairman: Senator Grosart, there is also the problem of what happens if the Law of the Sea Conference is a complete bust. We may have to settle our own backyard problems.

Senator Grosart: We have an easy answer to that, Mr. Chairman: we just go along unilaterally. We proceeded unilaterally with respect to the 12-mile limit, and we called anybody else who did it a "banana republic."

The Chairman: Are there any other questions, senators? I do not want to keep our witness here unnecessarily long, pleasant as his answers to our questions are. But, for your information, the meeting scheduled for Thursday at 10 a.m. has unfortunately had to be cancelled because Mr. Abshire, who was coming from Washington, has been summoned before the United States Foreign Relations Committee and cannot be in two places at the one time. So, as I say, he will not be able to come and we will have to postpone that hearing to another day.

So I declare the meeting adjourned at this point, subject only to thanking Dean Macdonald again for his courtesy in coming, for his well-prepared opening remarks and for his very frank answers to our questions. Thank you very much.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 13

TUESDAY, MAY 13, 1975

Twelfth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk—(20).
Hastings	

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, May 13, 1975

(16)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 2:40 p.m. this day.

Present: Honourable Senators van Roggen (*Chairman*), Barrow, Carter, Connolly, Grosart, Lafond and Macnaughton.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witnesses:

Dr. Gerard Rutan, Director,
Canadian & American Studies Program,
Western Washington State College,
Bellingham, State of Washington, U.S.A.

and

Dr. Walter Young, Chairman,
Department of Political Science,
University of Victoria,
Victoria, British Columbia.

At 4:50 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 13, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 2.30 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, firstly, I welcome Senator Barrow as a new member of this committee.

Hon. Senators: Hear, hear.

Senator Connolly: Coming as he does from Nova Scotia, it is good to have him. This is the external affairs committee!

The Chairman: Senator Connolly, I thought, as we were coming quite close to the end of our study of mechanisms, and will be going into a study of trade next fall, that we should have a knowledgeable member of the Senate from one of the extremities of Canada to add his weight to the free traders of the nation from that area.

As you will recall, Premier Hatfield and former Governor Curtis of the State of Maine gave evidence before the committee some time back on direct relations between the provinces and the states, and I thought that it would be interesting to cover the same subject matter as it applies at the other end of the country, because I think there are some significant differences in the way the situation is approached at the two ends of the country. We have, from this point of view, been most fortunate in having two outstanding men kind enough to come this distance from the west coast to give evidence here today.

Firstly, we have Dr. Rutan, who is chairman of the Department of Political Science and director of the Canadian-American Studies Program at the Western Washington State College. Last September Dr. Rutan organized a symposium on Canada-U.S. relations at his college, which was partly funded by the Washington State Legislature, I believe, and was attended by men such as Governor Evans, Premier Barrett of British Columbia, Senator Magnuson, Congressman Eades, and so on.

I might say in this connection that Governor Evans, on hearing that Dr. Rutan was coming to Ottawa, was kind enough to write a letter, which I will just quote a small part of.

The purpose of this letter is to express my appreciation through you to the Senate for inviting Dr. Rutan to discuss this matter. As Governor of a state bordering on Canada, I am particularly sensitive to maintaining good relations not only between the United States and Canada, but also between British Columbia and Washington State.

During my terms as Governor of Washington, I believe the relations with British Columbia and Canada have been good. There are unquestionably

issues which can divide us if we allow them to do so. There are also normal differences of opinion which occur regularly. Nonetheless, I am impressed by the tremendous reservoir of goodwill which exists on both sides of the border and what I feel is a determination on the part of both the people and their governments to live in an atmosphere of harmony and mutual respect.

Senator Connolly: That is from the governor of the State of Washington? That is very nice.

The Chairman: That is a very nice letter, expressing sentiments which I am sure we would all echo.

Dr. Young, accompanying Dr. Rutan today, is chairman of the Political Science Department at the University of Victoria, having been chairman of the same department at the University of British Columbia for, I believe, 11 years prior to that. He also attended the symposium I have just referred to.

Both our guests have agreed to make opening statements, following which Senator Carter has agreed to commence questioning. I would ask Dr. Rutan to start.

Dr. Gerard Rutan, Director, Canadian and American Studies Program, Western Washington State College U.S.A.: Thank you, Mr. Chairman. I will try to keep it as brief as I can. On the other hand, I have talked with the governor and his staff, and with representatives of the state legislature in Washington, particularly with the Senate, and they do want me to make some points, so I shall do so.

I agree with the statement of Governor Evans as quoted by you. I think relations between the State of Washington and the province of British Columbia are generally good. First of all there is a very good personal relationship between the governor and the premier. I think it is a warmer relationship than has ever existed between any governor of Washington and any premier of British Columbia. The relationship (ideology accepted) is such that I feel justified in describing them as good friends—friends who know, understand and respect each other, even though they may not agree on everything.

Beyond the personal friendship between the governor and the premier, what is the state of the relationship? Overall, it is quite good. For example, the two jurisdictions have at present 33 different agreements, understandings or arrangements in effect between them. They range over such diverse items as agriculture, commerce and industry, education, culture, environmental protection, human services, civil defence, military preparedness, natural resources, public safety and transportation. The latter category includes such concerns as joint surveys of highway traffic, routine exchange of annual planning reports, co-ordination of border crossing improvements, co-ordination of major highway improvements, arrangements to co-ordi-

nate future highway design, and co-operation between the two jurisdictions on pilotage matters.

They are very general relationships, well defined in a study done by Roger Frank Swanson, on provincial-state relations.

Senator Connolly: You have exhibited a very substantial volume of papers.

Dr. Rutan: Yes, indeed.

Senator Macnaughton: Did you say Swanson?

Dr. Rutan: Yes. This is called "State-Provincial Interaction". It is a study of the relationships between the provinces of Canada and the states, particularly the border states, (naturally) of the United States. He details the various formal and informal agreements, arrangements, compacts and understandings, that exist as of about a year ago at this time.

The Chairman: That is the work that discloses some 750 interchanges of one sort on another across the length of the border.

Senator Connolly: Have we a copy of that document?

The Chairman: Yes.

Senator Macnaughton: Is that a thesis or a book?

Dr. Rutan: No. This is a study done on contract for the United States State Department, if I am not mistaken.

On a less formal basis the relationship is also good. Thousands of British Columbians visit Washington State and an even greater number of Washingtonians go to British Columbia. In particular, this impacts upon on my area of the state, and I would like to make some comments thereon.

Northwest Washington State, up in the corner below the populated area of the lower mainland of British Columbia, has become heavily dependent upon Canadian—that is, British Columbian—tourist traffic. About 18 of every hundred dollars spent in northwest Washington, in the Bellingham area, is of Canadian coinage or currency going back through the banks. When you include *Chargex* and other credit cards and add them to the total, it becomes even more impressive.

Of more importance, however, is that a tremendous amount of the land being sold in northwest Washington State is being sold to Canadians. In the last tax year a little less than 40 per cent of all tax bills sent out by Whatcom county were sent to persons with British Columbia (lower mainland) addresses.

Since the introduction of the so-called Land Commission Act in British Columbia, and the resulting freeze on speculative land sales in the province, the over-the-border flow of land purchases has been very heavy. Sheriffs' officers and U. S. border patrol officers have actually arrested Canadian real estate agents selling American land to Canadian purchasers, which is frankly illegal; but the demand is so heavy on land in Whatcom and Skagit counties, in the northwest corner of the state that this is becoming an increasing problem. There is an increasing resentment on the part of Washingtonians of the large influx of Canadians.

Senator Connolly: Do you mind if I ask you something at this point?

Dr. Rutan: Go ahead, senator.

Senator Connolly: Are there any developers in this area working on those lands near Bellingham?

Dr. Rutan: Oh yes, sir.

The Chairman: You mean, Canadian developers?

Senator Connolly: Yes. The sales to Canadians, to individuals, are they for residential purposes?

Dr. Rutan: They are primarily to speculators, who in turn break it down. We get into short-plat and long-plat here.

Senator Connolly: That is what I mean. In other words, you are not dealing with the ultimate resident; you are dealing with the middle men.

Dr. Rutan: We are dealing with the residents. The laws of Washington say that anything from five acres down can be short-platted. You can break it down into lots of a quarter of an acre and sell it without putting in sewers, roads, fences or utilities. The Canadian speculator will buy 25 acres, will in turn sell this off to five other Canadians in five-acre blocks, who in turn will short-plat it and sell it off in lots of a quarter acre or half an acre.

We end up with places like Sudden Valley where you have Canadian purchasers of homes, or Whatcom Meadows, or whatever it may be called. About 40 per cent of all the tax bills sent out in the last tax year were to persons with Canadian addresses.

This is as good a point as any to shift my focus and discuss what I consider to be the main irritants. First of all, there is a growing awareness in Washington State of British Columbia. Tourist adds play a role here, but I think that something such as the increasing price of natural gas tends to rivet the attention of the ordinary Seattle newspaper reader or television viewer. Aside from the natural tensions that result from hockey rivalry, or perceived slights upon the national honour by political commentators on both sides of the border, the real irritants in the relationship centre primarily around problems relating to natural resources. For example, Canadian increases in the price of natural gas are perceived as "discrimination against the U.S. consumer," as one Washington State official in Olympia put it. Equally serious is that the full quantity of gas contracted for has not been available, and at times has fallen to 50 per cent of the contracted volume.

Front page stories in the state newspapers wherein Mr. Barrett described criticism by Washington State senators as "bunk", and/or announces that "the gouging charge is a bunch of crap", do not tend to ameliorate the situation.

The governments of Canada and British Columbia no doubt have excellent reasons for the natural gas price increases, in their own views, but it is undeniable that a 300 per cent increase in a little over 18 months is looked upon as discriminatory in Washington State. This is now followed by a proposal by Premier Barrett to double these increases and to have sixfold raises within two years. In a telegram sent in mid-April to Ottawa, State Senators Warren Magnuson and Henry Jackson of the Federal Senate in Washington, D.C., told Prime Minister Trudeau that the increases were "unilateral, abrupt and unfair". The state newspapers delighted in announcing that Premier Barrett, upon learning of the Jackson-Magnuson telegram—and here I quote from the *Seattle Post-Intelligencer*—"gave a reaction in his office that took the form

of a Bronx cheer". Quite naturally, both the increases in natural gas prices and the perceived attitude of the British Columbia government irritate people in Washington State. It is felt that the Government of British Columbia has ignored firm price contracts—volume and quantity contracts—and urged and supported increasing the price of natural gas to U.S. consumers with very slight regard to the effects of this action upon the relations between the Province and the State.

I should also like to deal, Mr. Chairman, with the problems associated with the raising of the High Ross Dam on the Skagit River. To reiterate the facts briefly, in the northwest corner of Washington State, Seattle City Light, a publicly-owned utility company, operates three hydro-electric dams—of which two, the Diablo and Ross, are the most important—which block the Skagit River flowing out of British Columbia. The electricity produced by their generators provides the city of Seattle, some two hundred miles away, with somewhat less than one half of the total power the city uses. In the process of building these dams, Seattle City Light created some very nice lakes for fishing—and I can attest to that. The controversy over these hydro-electric sites concerns Seattle City Light's proposal to raise the High Ross Dam to a mean elevation of 1,725 feet above sea level at the international boundary by raising the dam face itself 122½ feet. The resulting rise in water level will flood some 8,320 acres, most of it across the border in British Columbia. And herein lies the rub.

Senator Macnaughton: The dam is in the United States?

Dr. Rutan: Yes, the present dam is in the United States. But when the water is raised it will flood back in, and most of the new reservoir area will cover about another 8,300 acres, most of it in British Columbia. About 700 mean acres of water surface is now in British Columbia, and it goes up and down, of course. The area now flooded is bordered by about 3½ miles of meandering shoreline. If and when the flooding due to the raising of the Ross Dam takes place, the flooded area in British Columbia will no longer be in the neighbourhood of 700 mean acres but will increase to 6,300 mean acres of water surface. The Canadian shoreline will then increase from 3½ miles to over 20 miles.

The International Joint Commission recommended in 1942 that Seattle City Light should be allowed to build the Ross Dam and to flood back into British Columbia. This finding was accepted by both Canada and the United States, and accepted eagerly by the Government of British Columbia in the years following. The only stipulation provided in the finding on the International Joint Commission reference was that the Seattle City Light and the Government of British Columbia had to agree by contractual arrangement to the details of the flooding, electricity usage, compensation schedules, and so forth. These contracts between Seattle City Light and Power Company and the Government of British Columbia were worked out and affirmed by both parties at the appropriate times in the years thereafter. British Columbia contractually committed itself to the future possible raising of the Ross Dam and the future possible flooding of the British Columbia portion of the Skagit Valley per agreed upon, and, I might add, prepaid compensation schedules. Year after year Seattle City Light mailed its check to Victoria to maintain the contractual validity of the agreements, and year after year Victoria cashed the checks and took Seattle City Light's money. It is still the position of the Government of the State of Washington and of the Seattle City Light and

Power Company that the raising of the Ross Dam and the resulting flooding of the British Columbia portion of the Skagit Valley are both contractually allowable and proper. While political climates may change, and change back again, the duty of contractual obligation does not so change. The Ross Dam controversy, as seen from my side of the border, is one centering around a demand by Washington State and Seattle City Light that contractual obligations be respected regardless of the political climate, or ideological imperatives.

I will be glad to answer, Mr. Chairman, as best I can any questions the committee may have on the Point Roberts problem. It is, as you know, a most complicated and complex controversy. Suffice to say that I feel quite close to it as Dr. Mangred Vernon, a friend and colleague of mine, served on the Point Roberts Board of the International Joint Commission, as did Mr. James Dolliver, Executive Assistant to the Governor of Washington State. As things now stand the Canadian and the United States federal governments generally seem to be in agreement regarding the necessity of moving to solve the various problems that make up the controversy. The Province of British Columbia and the State of Washington seem less able to come to an agreement to agree.

Personally speaking, I was pleased with the proposal of the Point Roberts Board to the International Joint Commission for an international conservancy with Point Roberts serving as the headquarters for a kind of international park and conservancy area. My agreement does not go as far as another witness you had here, Mr. Jack Davis, in his desire to turn all of Point Roberts into an international park. However, to some degree we tend to agree.

My countrymen and fellow citizens did not and do not share my affirmative view of that all but defunct proposal. Indeed, I must admit that the popular attitude in my state, and particularly in my home region, is adamant in its opposition to any compromise on Point Roberts. It will not accept any alienation of the national territory or any change in the political situation. Yet, it seem to me that this is a problem that can be solved by an exercise in goodwill. This is not as deep a problem as would be involved with natural resources. Once developers and land-owners in Whatcom County, in Washington State, and on Point Roberts realize that they cannot just do with Point Roberts anything they want to, then I am certain that the Government of British Columbia will respond with concern for the needs and desires of persons who own land and want to develop it on Point Roberts. Water will be available and roads will be built. I have been on Point Roberts, Mr. Chairman, on Sunday afternoon when the population of the Point has surged to 20,000 people, half of them pretty well "beered-up". With two deputy sheriffs from Whatcom County, it becomes a pretty scary thing.

Senator Connolly: How big an area are we talking about?

Dr. Rutan: An area about one mile wide by three miles long. That is a point I shall be coming to in a moment, senator.

The Chairman: Those people you speak of all being Canadians?

Dr. Rutan: There might be one or two cars with Washington State plates, but you are lucky if you get American money. The problem, senator, as you all know, revolves around such everyday issues as employment, health and

medical services, electric, telephone, and water supplies, zoning and land usage and the peculiar problems associated with law-enforcement on the Point. The customs and immigration problems will have to be solved by the federal governments, and people on the Point are going to have to be allowed to go to Blaine and Bellingham and buy groceries and come back through Canadian customs. But once the federal governments show that co-operation is possible, then I would think that the local jurisdictions would follow that lead.

Referring to your question, Senator, and just as a footnote, I would like to point out that the boundary at Point Roberts is not on the 49th parallel, although by the treaty of 1846 (among others) from the crest of the Rockies to the salt water the boundary is suppose to be on the 49th parallel. The boundary actually sits, as we know now, about 850 feet north of the 49th parallel, running well to the east. Thus a pretty good chunk of Point Roberts, American territory, is north of the parallel. I have the maps here to show you. Back in the 1950s the Canadian maps used the boundary as a benchmark but since then we have had satellite surveys and I have more recent American maps which show a really wide variation as between the boundary and the parallel.

Other problems centering around the concern for natural resources deal with her equitable use of the fisheries, threats of land and water pollution, and the very real problem of tanker traffic on the Puget Sound and in the San Juan Islands. I know that you have already had considerable testimony on most of these topics, but I will be happy to answer any questions you or members of the committee might have for me regarding any of them.

I would like to point out here that I read the testimony of Mr. Jack Davis. There will not be, as it now stands, an offshore unloading facility for crude at Port Angeles in the Strait of Juan de Fuca. On the contrary, quite recently it has been decided that there will be a major facility built at Anacortes on Puget Sound and that this facility will allow vessels of up to 185,000 tons deadweight to come into a port facility that can take on a 70-foot water draw. Therefore, large tankers will be coming into what we call the Northern Puget Sound, which I am sure my colleague (Dr. Young) would call the southern Strait of Georgia.

Certain more specialized problems, such as the "Canadianization" of Whatcom County, the investigation by the United States Consumer Protection Agency into a Canadian firm buying up homes in Northwest Washington, or the problem of exaggerated land valuations, and taxes, in Washington State due to Canadian speculators are perhaps of interest to the committee.

Finally, I should like to address myself briefly to what is being done to help solve problems irritating the relationship between the province and the state. First of all, the enhanced personal relationship between the office of the premier and the office of the governor has already been mentioned, but is so valuable as to be worthy of note again. Secondly, attempts are being made to get the two jurisdictions together in various ways. The Canadian-American Studies Program at Western Washington State last September held a "Symposium on Canadian-American Relations". More frankly, it was a meeting of British Columbia and Washington State legislators and governmental executives. The symposium lasted three days, and was most successful. It was the first time state legislators and MLAs had been together in 49 years—the previous gathering

having been at the Empress Hotel in Victoria in 1925. I think it is rather shocking that MLAs and state legislators had to wait 49 years to get together again. Even if we did not co-operate all that much (although I happen to think there was a good deal of cooperation) at least we did get together.

I suppose that American prohibition laws played some small role in the selection of the meeting site back then, but the Canadian-American Studies Program was the agent that brought the participants together last September. Out of that symposium came new friendships between British Columbia MLAs and governmental executives, and their Washington counterparts. Out of that symposium came Washington Senate Resolution No. 101 proposing a Joint Legislative Committee on Washington State British Columbia co-operation, and the call for co-ordinated legislative action by both the Washington State Legislature and the Legislative Assembly of British Columbia "to promote a co-operative response to increasingly complex, mutual concerns". The Senate bill calls for a 10-man committee, five persons from each house, to meet three times a year to discuss common problems with Victoria. The State of Washington House of Representatives has approved the bill in committee, and I expect it to pass the full house with no trouble. The Secretary of State of Washington State has communicated these actions to Premier Barrett and the Speaker of the Legislative Assembly of British Columbia, "courteously requesting reciprocal action by the Legislative Assembly of British Columbia". I will leave it to Dr. Young to address you on that action.

House Bill No. 52 of the State of Washington came out of the symposium of last September. It is a bill designed to grant resident status for the purpose of tuition and fee payment to residents of British Columbia who attend institutions of higher learning in Washington State. We have quite a few, particularly in a place such as Western, which is only 17 miles south of the border.

Other measures such as legislative visitations, provincial participation in Expo '74, and a proposed Canadian-American Exhibition involving the province and state, in 1978, serve to bring the two jurisdictions together and perhaps to allow for better handling of mutual problems. I will be happy, Mr. Chairman, to answer questions concerning such activities.

In conclusion, I would like to emphasize that some of the irritants in this basically good relationship—excluding those relating to natural resources, or pollution, et cetera—have to do with "style" as much as with substance. A fairly good example of this is the recent announcement that the provincial government contributed \$1,000 to a group campaigning against the new Trident nuclear submarine base at Bangor, Washington. The group, known as the Pacific Life Community, was given the \$1,000 by Premier Barrett to allow them to continue to protest Trident submarines using both the base at Bangor, which is on the Hood Canal about 60 miles across the Strait of Juan de Fuca from Victoria. Announcement of this donation of public funds in British Columbia, by the government, to a pressure group dedicated to stopping a rather popular activity in Washington State did not serve to smooth relations. The action itself is of little account and should not be considered in any way a major "incident". It was a little burr under the saddle. Yet, it was carried in the Washington State press, it was commented upon over the airwaves, and it served to "tick-off" some of the more loquacious open-line talk show hosts. It was in terms of style a passing but a real irritant.

Another example of a style problem might be the out-of-the-blue announcement recently (as referred to earlier) by Premier Barrett, that railways should be used to carry oil from the North. This caught Washington State, I know, absolutely by surprise. I will not say anything further with respect to that, Mr. Chairman, but I will be glad to answer questions.

It is my hope, Mr. Chairman, that through these hearings and other such official activities there will be a momentum established. I hope that momentum will serve to get the province and the state to increase their contacts and further the search for mutual solutions. The relationship, as Governor Evans says, is a good one. It can be made better. Thank you.

The Chairman: Thank you very much, Dr. Rutan. You certainly opened up a number of areas which will give us more than sufficient food for thought this afternoon, but first we will hear from Dr. Young.

Dr. Walter D. Young, Chairman, Department of Political Science, University of Victoria, British Columbia: Thank you, Mr. Chairman.

Honourable senators, it is a pleasure to be here to discuss a subject which I believe this committee is pursuing with a great deal of usefulness for the Canadian academic community and, in my opinion, for Canadians in general. The amount of information that is being brought out, particularly with respect to the relationships between states and provinces, to my knowledge has never really been put together before. That in itself is an important service.

As Professor Rutan has pointed out, the relationships between the Province of British Columbia and the State of Washington by and large tend to be informal. There are the 33 agreements which have been discovered and I think probably amongst those who would be delighted to learn of their existence would be most of the senior public servants in the Province of British Columbia, because from their perspective there are only two that they know of. One deals with the question of joint activities in the area of civil defence and emergency measures; the other is the recent agreement signed in July, 1972 by Premier Bennett and Governor Evans which was a memorandum concerned with oil pollution and the control of spills, which was a joint concern.

These agreements did not produce any formal structure. No committee was established involving membership from both sides of the 49th Parallel. What they did do, however, was lead officials on both sides to recognize and understand that they then had valid points of contact. Through a series of discussions with people such as the Director of the Pollution Control Board in British Columbia, Mr. Venables, and other public servants I learned that the kind of contact they have is frequent and informal. A great deal of use is made of the telephone and in the event of a disaster, such as the recent forest fire on Vedder Mountain, which is on the American side of the 49th Parallel, assuming it was 850, 1,600 or 1,700 feet the other way, it was fought jointly by Canadian and American crews. There is a great deal of co-operation of that sort on both sides. However, apart from this type of informal contact, there is no formal structure, nothing to approach that which was outlined before this committee by Premier Hatfield and former Governor Curtis. Relations between British Columbia and Washington have not yet reached that stage. In fact, I think it is fair to say that there does not seem to be any

indication, at least on the part of the Government of British Columbia, to move in that direction.

The previous speaker has outlined the activities of the state legislature in Olympia toward formally establish the machinery for pursuing relationships with British Columbia. Nothing of a similar sort has taken place in British Columbia. Despite all the goodwill in the world that was developed by the Symposium in Bellingham last September, which was a successful event, it was not followed up by any formal activity at the legislative level in British Columbia. A member of the caucus was asked to look into it and perhaps pursue it at some point, but nothing has been done. This perhaps underlines the nature of the relationship as it is viewed from British Columbia. The relationship, as Professor Rutan has indicated, between the premier and the governor, is a very close, personal one.

It is one which I think it is important for this committee to recognize. It is always carried on with the full knowledge of the Canadian Consul in Seattle. Consul Anderson is always involved in the formal meetings between Governor Evans and Premier Barrett. The premier has indicated in conversations with me and with his press secretary, Mr. Twigg, that they make every effort to ensure that when they are making an official excursion south of the border they make arrangements through the consul in Seattle, or keep him fully informed and usually ensure that he or someone from his office is present. The attitude expressed by the Government of British Columbia is that they want to maintain as much as possible a federal presence, because they see so many of these areas have clear and obvious federal ramifications.

The irritants that do exist, which have already been discussed in splendid detail by Professor Rutan, in each case have their federal ramifications; and accordingly the attitude of the provincial government has tended to be "We must keep Ottawa informed as much as possible," although quite clearly in some outstanding areas this was not done—the most obvious being the proposal to bring oil down from Alaska by rail, which I think took everyone by surprise, both on the Pacific coast and in Ottawa. But nevertheless the general intent as expressed by the government is to try to maintain as much contact as possible with federal officials when they are visiting Washington State.

I would stress again the informality of the arrangement, the informality of the relationship between the governor and the premier and the informal kinds of contact that exist throughout the sub-ministerial level of the Public Service, and the fact that there is no office or no single official in Victoria who is charged with the responsibility of overseeing relationships with Washington State.

The irritants, from the perspective of the British Columbian, tend to be the same virtually kinds of irritants that were outlined by my American colleague, Professor Rutan. British Columbians are concerned about oil pollution particularly, and the prospect of tankers of the size envisaged off-loading at Anacortes in a virtually land-locked area has already been outlined for you by Mr. Davis. I do not think it needs any more comment from me, except to indicate that this is a major source of concern in British Columbia, and one of the subjects upon which Governor Evans and Premier Barrett at their most recent meeting had to agree to disagree. There seems to be no likelihood of any agreement being reached to control or prohibit this type of traffic—which poses a very serious threat to the Canadian Gulf Islands because of the nature of the topography, the

nature of the tidal flow, which virtually guarantees that anything spilled in Anacortes Bay in very short order will be well distributed throughout the Gulf Islands area.

It is an area which has hundreds of miles of shoreline, and the damage to not only an ecological resource but also a recreational resource would be considerable.

Other irritants from the Canadian perspective—probably far less strenuous than those from the American perspective—some of which indeed have faded, were the influx of American land speculators in the Canadian Gulf Islands. It is interesting, and perhaps a trifle ironic, to observe the cart now being on the other end of the horse. As recently as a decade ago, the inflated land prices in the Canadian Gulf Islands were due largely to speculation from American purchasers. Now, as a result of the activities of the land commission in British Columbia, which has controlled this type of land, there is an influx of Canadian money South of the border and you find the position reversed, and probably reversed in a way which is far more serious for our American friends than it ever was for Canadians. This is simply the result of the force of numbers. The Gulf Islands in Canada, and the sunshine coast of the Sechelt Peninsula, were far less accessible to American developers, American tourists and American campers than Whatcom and Skagit counties are to Canadians developers and campers. Consequently I think this is a major irritant and one which I think Canadians should understand fully. These two American counties have to admit that their busiest national holiday is no longer July 4 but July 1, because that is when most of the people who own cottages on the lake shore and the sea front are holidaying. Dominion Day becomes an event of major importance in Whatcom and Skagit counties because of the influx of Canadian tourists.

This raises exactly the same kind of problems and questions that exercise Canadians when they faced not nearly so great an influx of American tourists and investors in the Canadian Gulf Islands.

The response of British Columbians to the High Ross Dam question, as outlined by Professor Rutan, is of great concern and anguish, recognizing the sanctity of the contract, but recognizing also that it really was a bad contract, because the amount of money paid to the province over a period of years by Seattle City Light was clearly no way commensurate with the amount of damage that would be done to the area, and really reflected a period in our history, the history of both countries, when ecological questions were not really in the fore, when people were prepared to accept the flooding of thousands of acres in return for producing power. We are now living in a period when, largely as a result of the influence of American writers and scholars, we are aware of the problems that accrue to the environment if you proceed with this type of development.

Consequently the attitude of British Columbia—and indeed it is an attitude shared by Governor Evans—is that the Ross dam should not proceed, that something should be done to get British Columbia off the hook. The response of the Government of British Columbia is, "We do not want it to happen and we expect the federal government to do something about it." Ultimately it is an IJC problem.

There is a point which honourable senators might keep in mind, that the federal government serves as a very useful cover for provincial governments when a problem is particularly knotty—spelled with a "k". The provincial administration can simply say, "Well, clearly it is a federal

question and we do not want to get involved in it." In the case of British Columbia, where the Ross dam is concerned, the public is very much alarmed and are very heavily involved in a series of effective protest moves to examine the problem and to urge that something be done to solve it.

Of course, with the American position, it is understandable that there is a contract. There is also the fact that British Columbia is raising the price of natural gas, which makes it difficult to substitute alternative means of generating electricity, and moreover has given notice that when the contract to supply natural gas runs out that British Columbia's own needs will have to take precedence. Quite clearly it is a difficult problem to sort out. Seattle is a city that is growing—perhaps not as rapidly as Vancouver, nevertheless its needs for energy are increasing and therefore some alternative means must be provided. It is an area where there has to be close and careful bargaining.

Senator Connolly: Do I understand you to say that the compensation under the contract between the State of Washington, the municipal corporation and the power company in Seattle and the Province of British Columbia was inadequate or is now judged to be inadequate?

Dr. Young: It is now judged to be inadequate in terms of the amount of damage that would be done or the recreational acreage lost.

The Chairman: Do you know the amount, approximately?

Dr. Young: It is remarkably little for the amount there is. I will look it up.

Dr. Rutan: This was money to maintain contractual vitality, to show that at some time in the future the option would be taken up.

The Chairman: Are there larger sums of money payable when the flooding does take place?

Dr. Rutan: Yes.

Senator Carter: Could we have the date when that contract was made? It was made, apparently, when no one was concerned.

Dr. Rutan: In the 1940s.

Senator Carter: Thirty-five years ago.

Dr. Rutan: The clearing compensation for logs, the compensation for road replacement—all would have to be picked up by Seattle City Light at present prices. The cheque payments are to maintain contractual vitality. One cheque went to Victoria, and I think orders were given by the premier that it was not to be cashed. It came into the hands of someone and it was endorsed and cashed by the provincial government. They accepted it.

Dr. Young: The City of Seattle makes token payment of \$5,000 per year to demonstrate their good faith and willingness to comply with IJC order. The order provides that they make suitable and adequate provision for the protection and indemnity of all interests in British Columbia that may be injured by the construction or operation of the works to be constructed.

That is an open question, as to how much they will pay for the flooding. Part of the problem, of course, is that the environmental groups and at present the Government of British Columbia feel there is nothing they can pay to

compensate for the loss of this wilderness area. It is important to stress that it is wilderness area; it is not immediately accessible by a first-class road; it is an area which is used extensively by hunters and hikers with a penchant for that type of wilderness. It has also been argued unanswerably by a number of these ecological groups that it is an area of significance for specific groups of wildlife—for one of the largest colonies of beaver in the province; and specific kinds of wildlife, like elk and deer, abound there where they are not found elsewhere. So there is a great deal of emotional value as well. Part of the problem is that the nature of the works is such that the flooding is not constant. Indeed, as the case is now, with that valley, the water level rises and falls. If you visit the present situation in the Skagit valley now, when the water level is low, you are greeted by acres of mud flats and swamps, which are virtually unusable, unlike the lakes below the border which have been created by the development, which are attractive and have a very high recreational potential. The same will be largely the case with the raising of the level of the Ross Dam. It will flood a large acreage in Canada, but the water level fluctuates to such an extent that the shore line, for significant portions of the year, especially when there is a heavy draw-off, late in the summer and the fall, and when in some respects recreational demand is highest, will, paradoxically, be at its lowest, because of the shore line receding outwards, leaving a large bank of mud and stumps. This again is another problem.

Senator Connolly: Are you talking about 6,000 acres?

Dr. Young: Seven thousand acres of flooding, twenty miles of shoreline, more or less. Twenty-one miles of shoreline would be created instead of the present four.

The Chairman: But basically useless shoreline.

Dr. Young: Basically useless shoreline.

The Chairman: Because of the receding water?

Dr. Young: That is right.

Senator Connolly: How big is the wilderness area, roughly, that we are talking about?

Dr. Young: I suppose the total length of the valley would be something in the order of 60 miles or so from its beginning. Its width varies. There are a number of studies that have been done by one group based at the University of British Columbia on a Local Initiatives Project, Mr. Chairman. They did a very careful and detailed study of the area, and made the point that it has a very high recreational potential. It also has a very high ecological potential as a preserve of particular species.

Senator Macnaughton: And due to the geography, I take it you cannot flood the American side; it has to go on the Canadian side.

Dr. Young: This is the existing reservoir. Here is the border, so, you see, the flooding extends back a little up the river into Canada, about four miles. Once the Ross Dam is raised at this point here, then the flooding pushes all the way back here, almost to the head of this area.

The Chairman: I think I might interject here, honourable senators, to say that it would seem that one of the problems in this matter is that if it were agreed on both sides of the boundary even that the dam should not be raised, the provincial government of British Columbia simply says that it is a federal responsibility to negotiate

this. The provincial government has not yet been forthcoming with a suggestion that it itself should negotiate the compensation that should be paid to this private corporation.

Senator Connolly: Well, compensation is one thing, of course, but the ecological problem is a real problem, and it is a very emotional problem, too; but I suppose that the American authorities are concerned about possible hold-up on the development of the High Ross Dam on the one side, because this is another source of energy for a growing city like Seattle, and then with the fact that British Columbia on the other hand has increased the cost of natural gas to a very high level, so that their power plight in Washington is considerable.

The Chairman: I wonder if we could let Dr. Young finish his statement. My point is that between the IJC and other instruments which are examining the particular problem of the Skagit, I do not think our report will really solve this particular problem.

Dr. Young: No. It is a very difficult problem, and I think the senator is right to the point when he said it is an emotional question. That is a very important aspect of it.

Well, to conclude, Mr. Chairman, the position taken presently by the British Columbia government, as far as one can assess it, is one of casual informality in its relationships with Washington State, together with a willingness to meet and discuss any topic and to meet at any time, but always, if they can manage it, in the presence of a federal official, and with the full understanding that the interests of British Columbia will take precedence. While the premier does exude a certain bonhomie in his public presence, he is nevertheless determined that British Columbia will drive a hard bargain, and I think his behaviour in connection with the price of natural gas is indicative of that. His attitude towards politics and his attitude towards relationships with Washington State is that they should meet and bargain, and drive hard bargains, in those areas where there is a matter of mutual concern, or a matter of mutual irritation.

The reaction of Canadian legislators subsequent to the symposium was that they found it was an interesting exercise, one which conceivably should be done more frequently, but which was nevertheless one in which they felt that their American colleagues learned more about Canada than they themselves really needed to learn about the United States. They tended to echo the remarks made not too long ago by our ambassador to Washington, Mr. Cadieux, that one of the chief activities that an ambassador must indulge in, indeed one of the chief activities that Canadian provincial legislatures must enter into when they engage in this type of activity, is to educate their opposite numbers in the United States—that is, not simply to educate them with respect to the actual working machinery of the Canadian system, because of course it is quite different from the American system, but also to educate them about the difference in political styles. I think one of the things that is perhaps a subtle irritant in the United States, that is reflected in the kind of newspaper comment and the kind of comment one hears on the open-line radio programs, is a result of Americans not quite understanding the Canadian style of politics, not quite understanding the position of the premier, and certainly not quite understanding socialists in power, and precisely what socialism is all about in the context of a democratic system of responsible government.

I think there is a real responsibility to perform that kind of educational function, and this is where I think the Government of British Columbia stands on the question. They are prepared to meet and do what they can, but they are not going, in any case, to subordinate their own advantage. They are not prepared, at the moment, to set up any kind of formal structure to pursue their interests. At the moment they see themselves, to some extent, as being in the driver's seat, particularly with regard to natural gas. They feel that British Columbia is now in a position to drive as hard a bargain as they feel was driven when the Columbia River Treaty was signed, and they feel that British Columbia and Canada got the worst of that bargain. So they see little advantage in going any further. It is conceivable that under the stimulus from American state legislators they will make a move in this direction, but at the moment the matter is really dormant in British Columbia, and will remain so, I suspect, until the premier makes another sally to the south, or until our provincial legislators see the situation as being of sufficient importance to justify their proceeding as their American counterparts have done.

The Chairman: Thank you, Dr. Young. I might just say, before calling on Senator Carter, that the Canadian consul general in Seattle, to whom Dr. Young referred in his remarks, will be one of the three witnesses to come before us on Thursday morning of this week.

Senator Connolly: He is Mr. . . . ?

Dr. Young: Raymond C. Anderson.

The Chairman: Senator Carter.

Senator Carter: Thank you, Mr. Chairman. My first request was going to be to ask each witness to describe the state of relationships between British Columbia and Washington as they see them at the present time.

The Chairman: You are speaking of Washington State, or Washington, D.C.?

Senator Carter: The State of Washington. However, they have done it, although I am at a bit of a loss to equate their evaluations. Dr. Rutan stressed that relationships were "generally good". Dr. Young stressed that they were "informal, frequent and co-operative." I just wonder how you equate these two evaluations. Do they add up to the same thing, or is "informal, frequent and co-operative" a little less than good?

Dr. Rutan: I think, senator, that by analogy, Washington State is now in the position of "courting" British Columbia, and he who courts (not to be sexist, or the person who courts) perhaps is more anxious to put a good face on things and to look at relationship in a rosier light than the person being courted.

Dr. Young: I think probably the two are quite similar. It is worth keeping in mind that when Premier Barrett was Leader of the Opposition in British Columbia he made a journey to Olympia, in fact, to meet with Governor Evans. This, of course, was unheard of. Nevertheless, he felt it was important to do this because it was his judgment that the Government of British Columbia, then led by Premier W. A. C. Bennett, was unwilling to engage in this type of informal contact. So you had the precedent-setting event of a leader of an opposition party travelling down to meet the governor of a state, arrangements for which were facilitated by the consul in Seattle, and there was a recip-

rocal visit, once again of Washington State legislators, to British Columbia, not with the governor, but as guests of the leader of the opposition. Once again precedents had to be set because this involved the services of the lieutenant governor of the province. It was therefore a very remarkable circumstance, but it did demonstrate Premier Barrett's concern that contact should be made of an informal sort, because I think this is the essence of his style as a politician. I would therefore say that the two perceptions, one from below and one from above the parallel, do jibe.

Dr. Rutan: The border, not the parallel.

Dr. Young: That is right. The border is no longer a parallel, or rather the border parallels the parallel. If one has to sum it up, one would have to say that, yes, relationships are cordial, but they are informal, and there are no impediments to contacts being made freely and frequently between the various levels of officials and the two governments.

Senator Carter: Dr. Rutan mentioned a number of irritants: he started with the price of natural gas; then the second was the High Ross Dam; and the third was Point Roberts. Are these listed in order of priority, or, if not, what would Dr. Rutan regard as being the most serious of the three?

Dr. Rutan: The most serious is the problem of natural gas and energy supply, and I would think that it also contains the greatest potential for causing a disruption in relationships. The High Ross Dam probably has the greatest potential for emotional impact on populations on both sides of the border, particularly in British Columbia, unless, of course, the natural gas really does stop in 1982 and there is not sufficient electricity to fuel houses in a wet, rainy January and people start getting cold. That will lead to quite an emotional situation. In the northwestern part of the state the problem that hits with the greatest impact is what has been called the Canadianization—this means that you go to Birch Bay Park and you realize that everybody is listening to CBU—FM or CBU or CKLG, and you are the only one in the parking lot with green and white licence plates and every other licence plate reads "Beautiful British Columbia"—and it is a state park.

Senator Carter: Would Dr. Young agree that the more serious area of conflict between the province and the state is the gas price?

Dr. Young: I would think so, yes. It is not conceded by British Columbia to be a problem because the province generally accepts the fact that the natural gas has been sold for less than its value equivalent and its thermal potential, and they accept the fact that it should be sold for whatever natural gas is being sold for by suppliers in the United States to their fellow citizens. I do not think Canadians are upset about this, nor do I think that they are particularly aware in British Columbia of the extent of the anxiety that this price increase is causing in the United States, but I do agree it is a source of conflict.

Senator Carter: But from the B.C. point of view, it is not the most serious. What would be the most serious from the B.C. point of view?

Dr. Young: The tanker traffic. There is no question about that at all.

Senator Carter: So we have two outlooks that are almost completely different.

Senator Connolly: If I may interrupt here with a supplementary, Senator Carter, is the price of natural gas for consumption in B.C. the same as the price of the exported gas?

Dr. Young: No, it is not.

Senator Connolly: Which is higher?

Dr. Young: The exported gas is higher.

Senator Connolly: Do you know what the relative prices are?

Dr. Young: I think it is in the order of a 60- or 70-cent difference.

Senator Connolly: Per mcf?

Dr. Young: Yes.

Senator Connolly: What is it then? Is it about \$1.25 for export?

Dr. Young: It is \$1 for export, going up to \$1.60. Mr. Barrett wants it to be \$2. It was 32 cents. But the domestic consumption, as I recall, is of the order of 50 to 60 cents per mcf.

Senator Connolly: That is 50 cents, as against \$1 up to \$1.60.

Dr. Rutan: I would add that Governor Thomas Judge of the State of Montana has pointed out that the Province of Alberta has in a sense broken its contract, with the State of Montana to supply 10 billion cubic feet to the Montana Power Company. So it is not a problem that is unique to British Columbia and Washington State; it is a problem between province and state.

The Chairman: If I might interject here, Dr. Rutan has twice made reference to United States' politicians with direct quotations referring to the breaching of the contract and the question of gas prices. I have looked into this rather carefully, and I think that we should keep in mind that the export licences granted by the National Energy Board in connection with these contracts stipulated that the gas may not be sold in the United States at a price that is lower than the equivalent in competing fuels in the area of consumption. So it is the Canadian position that there was no breach of contract in that connection. The National Energy Board is charged with the duty under the act and it is a stipulation of the export permits that they monitor the value of competing fuels in the market areas, and set the price of gas accordingly. The latest report of the National Energy Board, a few weeks ago, showed competing fuels in these areas to be such that our export price at the boundary could be high as \$2, and it is in an effort to ease into this that the Canadian government settled on the lower price for the time being.

Dr. Rutan: I would add, most respectfully, Mr. Chairman, that the contracts also concern volume and supply.

The Chairman: That is right. On the question of volume it is not nearly as clear-cut. The shortfall in our exports to the United States through the Westcoast Transmission system were badly affected some years ago by some water in the wells in British Columbia, a problem which cannot be cured, I was surprised to find. It is a 'force majeure' section of the contract. There you can argue, as Americans do with much more conviction than they do on the price, that the shortfall should have been cut back on a pro rata

basis to all consumers on both sides of the boundary, whereas Westcoast cutback on the United States consumers only. They suffered 100 per cent of the shortfall. This is not likely to be cured until Arctic Gas comes on stream. Our last two winters have been very mild, but a severe winter could cause a very serious disruption on the United States side of the line by virtue of the supplies not being allocated on a pro rata basis. Again you have conflicting legal opinions as to the contract. Westcoast were threatened to be sued by their Canadian customers if they did not carry out the cutback the way they did; it was not only the pressure of the Government of British Columbia that caused them to act the way they did. I thought I should put that on the record.

Senator Connolly: It is a very important point. If Senator Carter does not mind, I think that at this point we should pursue this matter just one step further. It seems to me that the people in the State of Washington and in Montana are complaining on the basis of a contract that was an original contract for supply in certain quantities at a certain price. Those contracts probably were written before the National Energy Board Act was passed.

The Chairman: Yes, but they were rolled into new contracts.

Senator Connolly: This is a point to be made, Mr. Chairman, and you have obviously followed it, but the passage of the National Energy Board Act in fact did change those contracts both as to terms of quantity and terms of price.

The Chairman: They raised the quantity. The last contract was about 1970. I do not want to be too long-winded on this, but if you go back to the earliest beginnings of Westcoast Transmission, they failed in their bid to supply the Pacific northwest states. When the regulatory authorities in Washington granted this right to the El Paso Company, a man by the name of Fish at the time, I recall, who did not have the gas and knew he did not have enough gas for the Pacific northwest coming out, by being given the market and Westcoast being refused by the American regulatory authority, he was put in the driver's seat and was therefore able to drive a very hard bargain with Westcoast and take gas at the boundary at a price considerably lower than the Canadian consumers in Vancouver were paying. This was an irritant for a number of years. That was approximately 22 cents, for 300 million cubic feet, possibly. Later they applied to increase the throughput, or the export, to 500 million cubic feet, at a higher price of 32 cents. Now, instead of it being the old contract and a new contract, they signed a new contract for the total amount and averaged the price. Then we come forward very quickly another step or two; there may be an intervening contract too, but the latest revision was in 1970, I believe, when they went up to 800 million cubic feet per day for export, at a price of 40-some-odd cents. Again, averaging the 40 cents with the 32 cents and the 22 cents, you came out with 32 or 33 cents, which is the average figure. The new contract was signed for the total 800 million cubic feet. It is that new contract for the total amount at the average price which is subject to the new National Energy Board regulations and export permits.

Senator Connolly: Yes, so the contracts were not renegotiated; Parliament made a change.

The Chairman: No, I do not believe that is correct. The purchasers in the United States, if they had been able to anticipate the future, could have decided to stay with their

existing contracts, written as they were, but they requested a new contract for the extra gas they wished to purchase, in the amount of 300 million cubic feet. The new regulations would then have applied to that new contract but, as this all happened before the energy crisis, they did not anticipate the difficulty they were going to get themselves into by tearing up the old contract and signing a brand new one.

Senator Connolly: What you are saying to us, Mr. Chairman, then, as I understand it, is that having signed this new contract in 1970 it then became subject to the provisions of the National Energy Board Act?

The Chairman: That is correct.

Senator Connolly: So that in a sense, without knowing the effect of Canadian legislation, the authorities in Montana and in Washington, looking at their contract, in which they see volumes reduced and prices increased, say that the contract is being violated. Is that not the position in which they are?

Dr. Rutan: The Premier of Alberta, Mr. Lougheed, gave a commitment to Governor Judge of Montana. Governor Judge said he received a commitment a year ago from the Premier of Alberta that Montana could rely on existing Canadian fields until it was self-sufficient, which was seven or ten years away. So there was also (as a footnote) a sense of political commitment above and beyond any contract.

Senator Connolly: But despite the commitments and despite the contracts, under the provisions of the National Energy Board Act it was perfectly legal for your Canadian sources to cut back the quantity to be delivered and to increase the price to be charged.

The Chairman: I would like to separate that into two parts. I would submit that it was perfectly correct for them to increase the price to a price that results in it being competitive with competing fuels in the area of consumption. That was also a provision of the export permit, quite apart from the provisions of the act.

I found in Quebec City, Senator Macnaughton, when we were down there with the Canada-U.S. interparliamentary group only a few weeks ago, when I was on the Energy panel, that the price problem really was accepted, regretfully. However, the quantity question, the cut-backs of volume, is not as clear-cut. It is subject to conflicting legal opinions and has not been the subject of intervention by the National Energy Board, but is a unilateral decision of Westcoast Transmission Company Limited.

Senator Connolly: There is another point, which I will only mention without making it, because we should not forget it but discuss it later. The Premier of British Columbia has also established a marketing agency to which all the gas is sold. That agency, in turn, as I understand it, is responsible for export as well as domestic sales.

The Chairman: Yes, this was a mechanism which he used to increase the price of gas without increasing the price to his domestic consumers in British Columbia as much as that to those in the export market.

Senator Connolly: Perhaps you could speak to that a little later, Mr. Chairman.

The Chairman: Yes. I do not wish to take too much more time with this.

Senator Connolly: Thank you very much.

Dr. Young: The decision in these matters of whether or not to share a reduced flow of energy on both sides of the border is clearly a political one and British Columbia chose to pass the shortfall down to the American side. However, to indicate that he was not entirely anxious to destroy whatever good relations existed, the premier instructed the British Columbia Hydro-Electric authority to convert the Burrard thermal generating station from natural gas use to fossil fuels, oil, in order to provide additional gas. It was a minimal amount, but he felt that it was a gesture to indicate that they would do all they could to maintain supplies south of the border, but not at the expense of Canadian consumers.

The Chairman: And there were other things done of an uneconomic nature by Westcoast and the provincial authorities in British Columbia to try to alleviate the problem. They were not able to do so in a significant degree, but there was one short pipeline built at, I believe, a cost of some \$1 million to cap some additional gas, that will have to be amortized over 18 or 20 months, which is quite impossible, and therefore it will be a straight out-of-pocket expense. However, things have been done as gestures, but not sufficiently to alleviate the problem.

Senator Carter: The High Ross Dam, apparently, rests on approval by the International Joint Commission. However, it is also based on conditions that prevailed 30 or 40 years ago, which were totally different from those prevailing today. Then no one was concerned about ecological damage, and I suppose no one had any concept of the true value of the land being flooded.

Dr. Rutan: Yes, that is entirely the case. That is not dealing with the State of Washington, however.

Senator Carter: Yes. We should endeavour to get as close to the truth as we can. Just what are the real facts of the case? We must make positive recommendations, and unless they are based on factual information and as near to the truth as we can get, the recommendations will serve no purpose. I would like to get your reaction to that.

Dr. Young: In the simplest way the Canadian position, at least that of British Columbia, is that no one denies the contract; no one denies the decision that was made. However, they do assert that it was a bad decision and we should not have to live with it just because we feel that we do not wish to break a contract. In fact, reasonable people, amongst whom you will find the Governor of the State of Washington, accept the proposition that the damage done far exceeds the advantages that accrue from increasing the height of the dam. Consequently, there is a feeling that this should now be renegotiated. Professor Rutan has indicated that Seattle's position is that we should go ahead with it; we are going to need that power, we need it now; this is the only alternative we have, therefore we are going to proceed. I think if, in fact, it is proceeded with, it will be at the expense of good relationships with British Columbia.

Senator Carter: I think you indicated that the governor himself recommended that he was in favour of not proceeding with this dam. Do you look on that as a trade-off for something else?

Dr. Rutan: The recommendation by the governor is not really a recommendation. It is a private statement that was

made, I am sure, in my heart of hearts, for political ends. You have to remember that the governor is not a premier. The governor heads the executive branch, and there are two other branches of government. What the governor says will not have the same impact as the comments of a premier of a provincial government might have. It was well said in this room, on March 4, by the Honourable Mr. Davis, who pointed out the fact that we have here an agreement based upon an IJC reference and that both governments have agreed to it. The Government of British Columbia agreed to it, and it places Canada in a position where it will have to approve the abrogation of a solemn treaty.

That is the feeling on the part of the State of Washington, besides the contractual feeling. So far as the sacred beauty of the Skagit Valley is concerned, much of what exists in the area to be flooded is already mud land and stumpage. It is true that the flooding would increase by sevenfold the area in Canada under the waters of the Skagit River at some time or another during the year, but it is not as if it were the rape of a pristine wilderness. It is already an area which has some degree of water level going up and down, and it is the feeling on the part of Seattle City Light and the State of Washington, if not necessarily the Governor, that with the decrease in natural gas supplies, the State of Washington will either have to learn to endure being chilly or it will have to get some other kind of energy. That energy will probably have to be oil and/or hydro-electric.

Senator Connolly: The only source of hydro-electric is the Ross Dam?

Dr. Rutan: No. We are pressing ahead with the Skagit nuclear power plant, and of course the Trojan plant now exists in the southern part of the state. The Skagit plan is close enough to the border that the nuclear materials which will unavoidably escape into the Skagit River will go into the Strait of Georgia and this causes the problem of pollution.

Senator Connolly: British Columbians will be up at you on that.

Senator Carter: I would like to explore one more area. Regarding the machinery for resolving these conflicts, we had Premier Hatfield before us. Between New Brunswick and Maine they have four or five different mechanisms: they have what they call the mini-summits, where the premier and governor get together; they have the annual regional conferences of governors and premiers, where the Maritime governors and premiers get together; they have regional legislative conferences, contacts between functional departments—the highway officials, et cetera; and they have their normal contacts on the IJC and boards of IJC.

In the British Columbia-Washington State situation, there does not seem to be any of those. The counterpart of the mini-summit is not quite a mini-summit in the sense that it is in the eastern part of Canada. I understand that with the mini-summit they get together regularly, but in the West there is no regular understanding that they continue. Is that so, or do they meet at regular periods?

Dr. Rutan: According to the Swanson study, Maine at present has 110 arrangements, agreements or understandings primarily with Quebec and the Maritime provinces; the State of Washington has only 33; the State of Idaho,

seven; and Montana, 31. So by sheer numerical count you can see that Maine does have a much more structured relationship.

Secondly, I disagree with my colleague that the relationship was always that good between the state and the provinces. I have said it is good and I will stand by those words. Of the 33 agreements, understandings or arrangements between the State of Washington and the Province of British Columbia, the large majority were made in the era of the previous government in British Columbia, and while the previous premier may not have had that warm personal relationship with the governor in Olympia that now exists, at least there was a cooperative milieu in which B.C. Highways, B.C. Hydro and B.C. Forestry services worked with the State of Washington. We now have a warm personal relationship between the premier and the governor and we have the premier telling people in Seattle and New York that and they should be socialists. But there does not seem to be that willingness to respond that was found when the former premier came down to Blaine and accepted the cheque and signed the Columbia River Treaty. Whatever Canadians think about that, it is undeniable that we have replaced bonhomie—I would not care to be too quoted on this—with cooperation of a substantive nature.

Senator Carter: At the head?

Dr. Rutan: At the head.

The Chairman: But less substantive—

Dr. Rutan: We do not seem to be able to get any water into Point Roberts during a hot summer.

Dr. Young: I think that is a specific case. The impression one finds, from talking to people at the sub-ministerial level, is that they see no difference in terms of their ability to contact and live with their opposite numbers in Washington State on matters of joint concern—on highways, forest firefighting and so on. So far as Point Roberts is concerned, yes, I think there is a question there. The problem is compounded by the fact that the Province of British Columbia feels that to the extent that they improve the services to Point Roberts, to that extent development in that area will burgeon, and to that extent a heavier and heavier burden will be placed on the provision of ancillary services such as transportation. The road now is simply a two-lane—it looks like a country road, going down aisles of trees jammed with cars on a holiday weekend. If you make it easier to service the lots in Point Roberts, you will have more people, you will have to construct a bigger highway and upgrade all the services, with all the attendant problems and expenses that involves.

With the provincial government, while it is not stated policy, it is virtually an unstated position that until the Point Roberts situation is settled by the federal authorities, through the agency of the IJC, they are not about to exacerbate the situation or make the problem more difficult for themselves by increasing the availability of services.

It may be a bloody-minded attitude, but in one sense it is probably more productive, in that it is simply increasing the irritant to the extent that something will be done, because in the final analysis I think it is a federal problem that does involve the IJC in the real sense, particularly in that a large portion of Point Roberts is Canadian anyway.

Dr. Rutan: I disagree—

Dr. Young: If we are going to push the boundary 850 feet back to the point where it should be—

Dr. Rutan: I do not think we shall do that. I do find it difficult, personally speaking, to see how failure to cooperate with American law authorities—(Whatcom County deputy sheriffs) bringing back persons arrested on the Point—would in any way impede the development of Point Roberts or the impact of the area demographically speaking. At the present time, in order to bring someone back, the U.S. Coast Guard has to go across by boat; otherwise if a deputy sheriff comes through Canada with a prisoner, once he is on Canadian soil, of course, the prisoner could simply walk away.

Dr. Young: That is not a British Columbia problem. There is not much that British Columbia can do about that.

Dr. Rutan: It is a federal problem.

Another problem is the fact that Americans are finding it increasingly difficult to get through Canadian Customs. My attitude again is that if federal governments would take the lead here and show that cooperation is possible and establish that momentum, Point Roberts is a problem that can be solved, while something like natural gas supply becomes a bit more difficult.

The Chairman: Would you agree, gentlemen, that the automatic relationship of 20 or 30 years ago cannot prevail today because of those rather large problems which have not been invented by man but which have been thrust upon us by nature and events? Because these problems are substantial and severe, we on both sides should go out of our way to try to ameliorate the minor problems as much as possible, to demonstrate the level of good will which stand us in good stead in solving the larger problems.

Dr. Young: That is a very important point. It strikes me that one of the things that the Province of British Columbia should do is to assign to some official in the premier's office, or some other official in the government apparatus, the task of simply monitoring and maintaining some idea of precisely what is going on in this area, because one of the things that strikes you immediately, when you begin to try to find out exactly what is the state of relationship in the various levels of government, is that there is not anyone, in any specific situation, who knows. You can pick up information from a variety of sources, but there is no concentration of information on this matter. Quite clearly it is a matter which in some of its ramifications cannot be handled by the province, but there is no excuse for a province not being as well informed as it could be on what precisely is going on, and what the problems are, and how they can be dealt with.

Senator Carter: I gathered from Dr. Rutan's statement that following the symposium there was a movement to set up a formalized structure in the form of a legislative committee of five members and five senators. So there is on the State of Washington side a movement towards a formal structure; but I gather from what Dr. Young said the lack of a formalized structure on the British Columbia side was more or less deliberate policy. Am I correct in that?

Dr. Young: Not quite, senator. It is not a deliberate policy, but simply is indicative, I think, of the general lack of interest in doing anything concerted about it, and is typical, I think, of the informality of the policy. They have

simply accepted that it is a useful thing to do, and one of these days we are going to get around to doing it.

Senator Carter: They do not see any useful need for a formalized structure.

Dr. Young: Not at the moment.

Senator Carter: Is there something the federal government should do about that? How do you make them more aware of the need? Are they not aware of what is happening over on the east coast? In New Brunswick and Maine?

Dr. Young: I would be astonished, sir, if they were. I think the isolation of the east from the west is something that we are aware of, and one of the advantages of this body in this chamber, sir, is that this kind of information is now more readily available than it was before.

Dr. Rutan: I would like to add this observation, from lunch today. When you are dealing with the Atlantic provinces, Newfoundland, for example, plus the Atlantic states of Maine, Vermont, New Hampshire and so on, you are dealing with a large area. When you are dealing with British Columbia and Washington State you are not really dealing with them *in toto*, you are dealing with a tiny geographical area which is known as the lower mainland, which can be scrunched on to a map, and is very heavily populated. This includes the lower half of Vancouver Island. Both the lower mainland and the lower half of Vancouver Island are jammed against a strip of land running from the Cascades down to salt water, into which is packed most of the population of the State of Washington, between Tacoma and Bellingham, so you have an upside down, backward "L", which is the lower mainland and Vancouver Island, with northwest Washington pushed up in here. It is about 150 miles from Seattle to Vancouver, so you have most of the population in the area all packed in around there, and it becomes harder all the time to adopt this friendly approach when you are crammed into this small area, and our tankers are coming through your waters and your people are in our parks. The irritants are more real.

The Chairman: I might just add to what Dr. Rutan has said by quoting Dr. Doxiadis, the famous Greek urbanologist, who has been hired to study cities such as Tokyo and Moscow, around the world. On coming to the Pacific Northwest he looked at the Vancouver-Seattle complex, and made the remark—I believe publicly, but certainly privately to me—that if it were not for the 49th parallel boundary, there would be no question in his mind but that this had a potential for becoming the third megalopolis of North America, indeed, more so than San Francisco and Los Angeles, because of the hinterland that serves it and the wealth of the hinterland, and the fact that it is packed, as the doctor says, into this little bit of arable land between the mountains and the sea. I just thought I would reinforce your remarks by drawing that analogy.

Senator Macnaughton: I have some notes here and I thought it might be useful just to list some of the irritants between British Columbia and Washington. We all know what they are, but perhaps listing them for the record would be useful. They are: the reduction of British Columbia gas exports; gas export prices; the flooding of the Skagit Valley; the Alaska oil tanker pollution threat; disputes over salmon and halibut, which we have not touched on but we know what it is; cable deletion of TV commercials; the Columbia River Treaty discussions; the purchase of houses in Washington State; and Point Roberts. I would

also like to hear your views on the delimitation of the A-B line, the extension of the border into the sea, obviously the control of the sea bed and things like that.

Dr. Rutan: Are you speaking of the line proposed off the Dixon Strait?

Senator Macnaughton: I do not know too much about it. That is why I am asking the question. We say the line goes one way, and you say it goes straight out. There is quite a difference.

Dr. Rutan: Here I am on very thin ice. The position of the United States, coming out of Caracas and other meetings, as I understand it, is that the high seas should remain the high seas, and the United States approaches with reluctance the idea of stewardship zones and expanded areas of national sovereignty in areas of water. But forced reluctantly to the position, the United States tends to draw a line which runs straight out of the Strait of Juan de Fuca, which tends to run on an east-west line, much as does the 49th parallel. Is that your understanding?

Senator Macnaughton: I really do not know much about it, except the general controversy.

Dr. Rutan: When you go north, you come off the southern tip of Alaska, another line runs parallel to that line, straight out, so the Canadian area of control for submarine areas would fit between those two lines. It would tend to be limited then by the area of British Columbia, which is exposed to and washed by salt water; the line is extrapolated straight out. The Canadian position, As I understand it very vaguely, is that the lines tend to verge out so that they get bigger and bigger.

Senator Carter: Are you saying you project both lines seaward and then claim jurisdiction over what is enclosed from a point a certain number of miles at sea?

Dr. Rutan: My understanding here, as I said, is foggy. My very thin understanding is that, secondly, the United States approaches this with great reluctance. We in the United States do not like the idea of enclosed waters. We have had some trouble with some Latin American countries with 200-miles fishing limits and this kind of thing. Thirdly, forced reluctantly into a position of drawing lines on submarine or shelf areas, our lines tend to be straight line projections from border points rather than meandering lines.

Senator Macnaughton: Your argument is really based on the old tradition of freedom of the seas, which is a very comfortable doctrine for those who have enjoyed it in the past.

Dr. Rutan: For those who have enjoyed freedom of the seas, yes.

Senator Macnaughton: Our argument is that we want trusteeship over the 200-mile limit, having after Russia the longest shoreline of any country in the world. We do not claim sovereignty, but we want the right to arrest and try exploiters, and act as trustee for the world as a whole. However, we will have to leave that to the Law of the Sea Conference.

If we could get down to petty details, let me refer to the High Ross Dam. If I correctly took down what you said, you said that we must respect contractual obligations regardless of ideological considerations. Do you think that is a tenable doctrine these days?

Dr. Rutan: What I said was that the High Ross Dam controversy is involved in political considerations as well as economic ones, and considerations of power; that the political climates may change—and then change back again, as we all know; that the duty of contractual obligation does not so change, and that is how the situation is seen from the Washington side of the border. Here I am paraphrasing a statement of a high ranking official in the governor's office. The demand by Washington State and by Seattle City Light Power Company is that the contractual obligations be respected regardless of what is called the political climate or ideological imperatives. That is, if the drums of the ecologists beat louder and louder, nonetheless the contract is sacred. I point out to my students in Political Science 101 that I think ours is one of the few (if not the only) constitutions in the world which says directly that the sanctity of contract shall not be violated. It is very important to Americas.

Senator Macnaughton: Yes, that is very similar to what you were talking about earlier. Then speaking about oil refineries you said, "It will be built at ABC" or wherever it was in Washington State. There was no room for negotiation. You said, "We, as Americans, will built it."

Dr. Rutan: I am reporting that the Shell Oil Company has announced that it will put in a new dock 1,000 feet north of the present facilities at Anacortes, and that that new dock will offer 70 feet of water depth to take tankers of 180,000 tons dead weight. This means that tankers will be coming between Huckleberry and Saddlebag Islands near Anacortes where the passage narrows to a little over a quarter of a mile. The Standard Oil Company has decided to go down to California and it will not use the Puget Sound. The Shell Oil Company will use Puget Sound. Those announcements have been made.

Senator Macnaughton: That is my point. You say, "will be built", "will be used", "will be located", but is there not some area for negotiation there with your neighbours to the north? Are you on the contractual kick again—"It is our land, our law, our country. To hang with the people to the north"? I am speaking here of the Puget Sound.

Dr. Rutan: No, sir, I do not think so. Here I would quote the Premier of British Columbia who said that in the long-run each jurisdiction has to do what it thinks best in its own jurisdiction. He said he spent seven wonderful years getting his education in the United States. The free enterprise lesson he was taught could be summed up that "there is no free lunch. That is what we are saying, and no red-blooded American politician, if he were in my shoes, would do it differently."

Senator Macnaughton: It is interesting rhetoric, but I am trying to needle you, obviously. On one side of the border you have the High Ross Dam which you are going to build, come hell or high water, and oil refineries which you are going to locate because "it is our legal right to do so", and then you object to our cutting off gas supplies and raising the price, which is our contractual right. And there you have two adamant sides.

Dr. Rutan: The feeling is that the contract does obligate Canada certainly in terms of volume. There are volume obligations.

Senator Macnaughton: What I am trying to get to is, where we have two definite sides, obviously arbitration should result. Now, with your media down south and our

wild tigers on the west coast, is there any possibility of arbitrating these problems, because they have to be arbitrated in the long-run?

Dr. Rutan: I would agree, senator, and I would hope that the federal governments would move to do what they can in terms of customs; and on Point Roberts I would hope that the local jurisdiction would move so that options such as the legislative co-operation between the State of Washington and the Province of British Columbia would be picked up by the province, and that the premier would see fit to respond to the actions of the Washington State Legislature and their committee, or soon-to-be committee, for B.C.-Washington relations. The State of Washington, I can assure you, is very interested in courting British Columbia, and in doing whatever is possible to ameliorate whatever problems may exist, to the extent that it can do so. But as the governor has said, some things are beyond even the best of will. But where we can exercise good will, I know we want to do so.

Senator Macnaughton: I agree with that.

Dr. Rutan: If we could purchase from B.C. Hydro at a reasonable rate the contractually-guaranteed volume of electric power we need, that would, of course, obviate any necessity for raising the High Ross Dam.

Senator Macnaughton: Well, you see, governments come and go—thank goodness, for the people, and I say that as an ex-politician—but the basic problem of living on either one side of the border or the other remains, and I suppose it is a process of mutual education and goodwill.

Dr. Rutan: That, senator, is why we have the program and why we try to have the symposium. I agree. Thank you.

The Chairman: Thank you, Senator Macnaughton.

Senator Connolly: Mr. Chairman, from the discussion we have had this afternoon, I think we can see that there is here a classic example of a province assuming jurisdiction in certain areas, and then, like a swimmer out too far, venturing a little too deep to be able to operate with full capacity—in this case, full sanctions.

There is little doubt that when British Columbia exports gas to Washington, it is not so much a matter of having the legal authority as it is of being the owner. It is more a matter of proprietorship than of jurisdiction that it takes to itself when it established a provincial crown corporation, which presumably buys gas from the producers or the distributor and then in turn sells it.

I think we should be quite upset that the two senators from Washington, namely, Senators Magnuson and Jackson, feel that there has been a breach of contract on the part of Canada. Perhaps a charge of this kind can be levelled against the provincial authorities, but certainly not against the federal people. Certainly, in the circumstances it cannot be a charge that is levelled against the original owners of the gas. It must be one laid against the people who are actually doing the exporting.

In any event, we have a real problem for this committee arising out of this situation, because if British Columbia can establish its crown corporation to be in charge of the distribution and sale of gas and then, as a result of that, raise international complications—and undoubtedly there are international complications in this issue—then we

must consider carefully what to recommend as a method of both resolving the problem and of handling this kind of problem in the future.

Obviously, jurisdiction in international affairs is with the federal government. Provincial governments have jurisdiction only in local matters. Property and civil rights may be the base upon which British Columbia took the steps it did in respect of gas. Nevertheless, an assertion of that right and the use of that right creates an international complication. So much so that the two senators from Washington say there has been a violation of contract by Canadians. We must face that. We must decide whether the witnesses are correct, that it is only by involving the federal authorities that ultimately the problem will be resolved. In my opinion, the road block to the solution is the fact that title to the gas has been taken by the provincial authorities, or by an emanation of the provincial authorities.

The Chairman: Senator Connolly, if I could just interrupt you long enough to make this observation: If I understand your point correctly, one of the things that has not really been touched on by the witnesses—I do not criticize them for that because that is not really what they came for—is how you put these problems at one end of the continent in the context of the larger problems extending across the continent between our two countries. If I could just make these one or two points: When you speak of the British Columbia irritant of tankers, it is one thing to look at it from a wholly British Columbian point of view vis-à-vis Washington State. It is another thing to go on the national scene, with the federal government, and be reminded by your American colleagues then that we run 600 tankers a year into Portland, Maine, for the exclusive use of Montreal and things of this nature.

Senator Connolly: Of course.

The Chairman: If the federal authority on each side of the line is not to be paramount in some of these situations and negotiations, how do you put these things in total context when they are being dealt with in isolation by a province and a state at one end of the line? Am I correct that this is the type of problem you have in mind?

Senator Connolly: What you say supplements exactly what I wanted to get at and did so in such a roundabout fashion. Perhaps before we go on the witnesses might have something to say with respect to my little speech.

Dr. Young: In my opinion, the problems you have raised are serious and to some extent indicate a failure on the part of both federal and provincial politicians to perform one of their essential functions, that of educating the public to the nature of these problems. The point raised by the chairman in relation to the tanker traffic into Portland, Maine, for Canadian use is certainly true and is something which is very seldom mentioned in the context of tanker traffic into Puget Sound, Juan de Fuca Strait and the Straits of Georgia. This fundamentally demonstrates that we have really failed to maintain a federal posture in Canada whereby we are constantly alive to issues that have federal ramifications to the extent that we are prepared to enlarge the awareness of citizens in British Columbia of the problems confronted by the citizen of Maine, of the kind of activities engaged in by their fellow citizens in the Maritime provinces and so on. We tend to look at these things purely in isolation and, in my opinion, this is particularly the case in British Columbia, which is

in many ways an isolationist province and tends to see itself as a province unlike the others.

Senator Macnaughton: Is that a quote?

Senator Connolly: Sure it is a quote.

Dr. Young: It is a quoted phrase.

Senator Connolly: The other point I would like to make is not by way of asking a question, because these gentlemen have led a very good discussion of the problems as between British Columbia and the State of Washington. I was quite impressed when former Governor Curtis and Premier Hatfield were here and discussed the relationships between the State of Maine and the Province of New Brunswick and generally between our Maritime, rather than Atlantic, provinces and the nearby states of the northeastern United States. I would think this committee could encourage relationships between governments of those provinces and states, not only in the east but all along the border, to deal with matters that are of a purely local nature. That is the way in which our provinces were set up, and I venture to say, although I am not an expert on the American situation, that the state governments usually have a local jurisdiction. At that level they can deal with relatively minor problems as between themselves as effectively or perhaps more effectively than can any other body. However, it is a question of judgment of an assessment by the provincial or the state authorities as to whether the problem with which they are dealing is likely to grow and become an irritant on an international scale. In these matters they must show a great deal of responsibility if they get into situations such as the gas matter, the Ross damage matter, or the pollution matter in the waters off the West Coast or the East Coast that are likely to be of serious international consequences. It seems to me that immediately there should be a recognition by the provinces and the states of the federal character of the problem that is likely to emerge and an attempt made to involve the federal authority, so that not only will there be no problem but there will be no irritant. Irritants lead to a bigger problem and to a bigger misunderstanding, and perhaps sometimes an unfortunate misunderstanding.

The Chairman: Senator Connolly, how do you force them to do that if they are not of a mind to?

Senator Connolly: That is precisely the point. All we can do here is make a recommendation—

The Chairman: I agree.

Senator Connolly: —if we see our way clear to make this kind of recommendation, without attempting to criticize either the federal or provincial authority in what they have done, saying there are better ways to do it and there is a better machinery with which to do it. When Senators Magnuson and Jackson say Canada reneges on its contracts, that is not a very good position for us to be in Washington.

The Chairman: You mean in Washington, D.C.?

Senator Connolly: Yes. I suppose there are irritants on both sides. Earlier, Mr. Chairman, you talked about the Fish contract arrangements, and the fact that Fish, because of the position he occupied, was able to squeeze Westcoast. That was done, and I suppose nothing very much could be done about it. It was a private arrangement after he got his position established by the American authority, and he could squeeze another competitor. But now, it seems to me,

that up to a point a combination of the British Columbia government and the authority given in the National Energy Board Act is squeezing the State of Washington, certainly into higher prices and perhaps lower volumes of gas. Whatever is to be said on both of those problems, it can lead to major international misunderstanding. If the flag can be raised—there is danger in a given situation that this can happen—then I think you have to call upon the goodwill and the interest both of the federal and the local authorities on both sides of the border, recognize it, and get it dealt with in a civilized way.

The Chairman: We might get some comments on one or two of those points before adjourning.

Senator Barrow: Someone mentioned the deletion of commercials in connection with cable television being an irritant. Is it really an irritant to the people in the State of Washington, or is it an irritant to some of the broadcasters?

Dr. Rutan: It is an irritant to a group of people who form an important and influential political clientele in the State of Washington.

Senator Barrow: How small a group?

Dr. Rutan: Most political groups happen to be small groups.

Senator Macnaughton: Interested groups. Both of you gentlemen are very distinguished university professors, with contacts throughout both countries. Is there not something that you could do yourselves? It is customary for professors to blame us for sitting here and doing nothing. What about putting the shoes on the other feet? You have the universities, platforms, conferences, television; you can write, you have the press, you can influence public opinion. Is anything being done?

Dr. Young: I think you have a good example of that here, senator, in Dr. Rutan, who is very active in helping organize, throughout the United States, Canadian studies programs at American universities. I think this is one way of enlarging the consciousness of people south of the border, at least to the level of Canadian consciousness about Americans.

To address the more specific point, I do not think academics have done as much as they could do in this area, particularly in dealing with the specific irritants. There is probably more interest and more activity in eastern Canada in relation to these things than there is in western Canada. That is unfortunate.

Dr. Rutan: I should like to add two things. First of all, the role of the academic, as I was explaining to Dr. Young earlier today—and he already knows this, so I was simply pounding sand—is, in many ways, demonstrably different from the role of the academic in Canada. The professoriat in the United States does not possess the prestige, nor the clout, nor the salary level found in Canada.

Senator Connolly: That's news.

Dr. Rutan: Very often it is true, except for prestige universities, primarily on the east Coast. You do not find many professors advising the State Department on what to do.

Secondly, the response that American professors increasingly find on Canadian campuses varies from the mildly suspicious to the extremely hostile. The question addressed

to me at one of the Canadian campuses I visited recently in connection with Canadian-American studies programs was whether I was telling the students in the Canadian-American studies program at Western about the "American Imperium", which rather rocked me. The answer is that I am not discussing the "American Imperium;" I am trying to discuss Canadian-American relations.

The role of the American professor, then tends to be somewhat limited. Legislators, traditionally, do not cotton on to school marmes, and the role of the American professor in Canada is becoming more and more difficult because, quite frankly, of increasing Canadian nationalism on Canadian university campuses.

Senator Barrow: Mr. Chairman, I have heard mention time and again of the cooperation of the Maritime premiers. The Maritime premiers met in 1867 and did not meet again until 1953, and they only met at that time because the businessmen of the Atlantic region forced them to do so. I am wondering what the business people in British Columbia and the State of Washington are doing.

Dr. Young: Nothing in British Columbia, that I am aware of. I would suspect that that is perhaps as a result of the limited access they feel they have to the premier's office at the present time. I am not sure that there is anything one could attribute to the pressure of the business community in the present state of relations between British Columbia and the State of Washington.

Dr. Rutan: J. V. Clyne—former chairman of the board of MacMillan Bloedel, Limited, former British Columbia Supreme Court Justice (not, I would assume, in favour with the present regime in Victoria)—spoke in New Westminster recently to a group of Canadian businessmen. I have the clipping here. It was prominently carried on the editorial page of the *Seattle Post-Intelligencer*.

Senator Connolly: He has made two speeches like that recently.

Dr. Rutan: He is waiting for a better day.

The Chairman: I have that clipping here. I am wondering, honourable senators, before our time expires, whether I could take the time of the committee to ask our witnesses to explore one major and one minor item. First of all, the IJC, as has been evidenced in our hearings on this subject, has been extremely successful, by anyone's standard, in managing boundary matters between the United States and Canada.

We have also had before the committee witnesses who spoke on arbitrational disputes between the United States and Canada, and whether this method of dispute settlement should be carried beyond its present application.

Has either of you gentlemen formed any views on whether or not the jurisdiction of the IJC should be expanded to cover more areas than it does at the moment—in other words, to pick up some of these other irritants we have been discussing—or whether another agency like the IJC should be set up, again pursuant to a formal treaty between the two countries, as was IJC, under which some of these other problems could be dealt with, an obvious such problem being salt water disputes, which are presently outside the jurisdiction of the IJC? Has either of you thought in those terms?

Dr. Young: I have not given this particular question a great deal of thought, but I think, in general, the track

record of the IJC would argue in favour of extending its jurisdiction to include salt water and perhaps some of the irritants in other areas. I do not know the extent to which one can begin to think of the airways as constituting a legitimate jurisdiction for the IJC, but I think their track record alone indicates that it is a useful body for this purpose. On the other hand, there is a feeling in British Columbia, consequent upon the IJC's subcommittee report on Point Roberts, that is something less than favourable, because it was felt by a number of people in British Columbia that it was really a gaffe on the part of the IJC to promote the report of the subcommittee and handle it the way it was handled, whereby the people involved—in this case the inhabitants of the Gulf Islands—were the last people to be fully informed, and especially in view of the fact that none of the hearings that preceded the report was even held in the Gulf Islands. This, of course, outraged the people. Apart from that, however, I think that in general this could be fruitfully explored.

Dr. Rutan: My own experience in this regard, Mr. Chairman, quite frequently, is that people tend to be in favour of the IJC in inverse relationship to the focus of the IJC on their immediate concerns. In other words, most Americans living on the west coast, or in the southern states, are very much in favour of the IJC handling the Great Lakes pollution problem, but when it comes to Point Roberts attitudes tend to change. Generally speaking, Americans support, and support very warmly, the bilateral relationships and commissions and agencies that tend to solve problems, and I would think that here again the federal level could take the lead and build the momentum that I think is necessary to solve problems.

The Chairman: You both mentioned a few minutes ago—I believe Senator Macnaughton raised this point—the shortcoming, as far as both sides of the boundary was concerned, but I think particularly in the United States, of the Canadian position being put forward properly. If governments were to launch upon a program of public relations, if you like, which I suppose would then involve advertising and things of this sort, to explain the Canadian government's position, do you think this would be possible, or would it be too dangerous? I am quite sure that if the American government hired space in Canadian newspapers to put forward an American government point of view, we would immediately hear outraged cries from our nationalists, saying, "They are interfering in internal Canadian affairs," and so on. I am thinking of explaining to the people of Washington State, for instance, and of Oregon State, some of the facts of life about our gas in Canada, for example, that we ourselves are going to be short in three years and that there is no way that we can get the Arctic gas down fast enough. This is the type of thing I have in mind.

Dr. Rutan: This is already being done. The Seattle television stations, the Portland television stations, the press in both cities and the major regional press carry constant stories in this regard. The Government of British Columbia makes very strenuous efforts to explain its position and, of course, the Government of Canada is well represented. You will hear from witnesses who will be coming before this committee, of the multifarious activities that the consular service engages in on behalf of the Canadian position. My own experience is that when going to hearings on land development, or zoning hearings, or hearings on the Skagit Valley nuclear power plant, you are as likely to hear a Canadian presenting a point of view as

you are an American, although I read in the testimony that Mr. Davis found it difficult for himself, as a minister, to get a point of view put across. The point I would make is that there is a different style of politics in the two countries. Canadians tend to base arguments on the values or a value system, which may be persuasive to them, but are not as persuasive to Americans when you are talking before the Whatcom County Board of county commissioners. I do not think it does much good to plead the value of human dignity and the little fishes in the stream. It is much better to go in with something that will increase county valuation and reduce taxes, something of this sort. I hate to sound cynical, but very often Canadian witnesses tend to represent groups or points of view that, while very admirable, do not generate tremendous enthusiasm on my side of the border. Everybody loves whales, but it is not the kind of thing to advance before the state ecology commission.

Senator Barrow: They do the same thing here.

Senator Macnaughton: Perhaps it might be as well to have an exchange of the premier and the governor for six months! It might do them both good.

Dr. Young: The premier might find that the governor can do things he cannot do, but that the premier can do things the governor cannot do. Legislators forget that there are things they each can do that the other cannot do.

Senator Carter: We talk about good will, but does good will actually exist? If there is the good will that we say exists, how is it that the positions on both sides are so hard? No matter what the problem, surely neither side is completely right. Both sides have some evidence in their favour, and somewhere down the middle is a line indicating what is right in the circumstances. However, they do not seem to be able to agree on what is right, or they do not

care what is right; or one side insists on the letter of the law, whether the letter of the law is valid in today's context or not, whether it pertains to circumstances applicable to another day and another generation, and totally excludes the situation we face today. If there is good will, I cannot understand why somebody cannot say, "Surely, there is a right thing to do in this situation. Let us try to find it."

Dr. Rutan: The governor has publicly committed himself, in a letter read by the chairman, to doing everything possible to ameliorate the situation. The legislature of the State of Washington is expected to set up a committee to conduct relations at least three times a year with their provinces. At least two institutions of higher education in the state are actively engaged in Canadian-American study programs. The hardness tends to come from television companies, or power and light companies, or natural gas companies, who feel they have contractual rights and that these contractual rights have to be honoured. As I have said, the State of Washington and others in the state would be willing to work for some kind of amelioration of problems, and they do not adopt any kind of hard or fast stance.

The Chairman: Senator Carter, I would suggest that part of the answer to your question is that we are at the moment suffering from imperatives of happenings over which we have no control, in matters of energy and ecology particularly, which have made our relationship much more difficult, of necessity, and it will take much good will to resolve the problems.

Honourable senators, if there are no further questions, I would like to thank you and both our guests, who have come such a distance to be so informative and helpful to us this afternoon. Thank you very much.

The committee adjourned.

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Government
Publications



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 14

THURSDAY, MAY 15, 1975

Thirteenth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

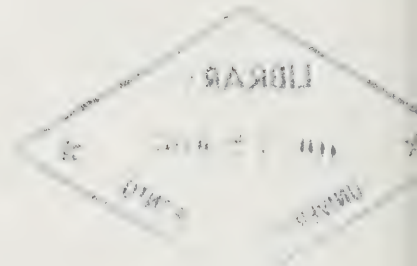
The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk—(20).
Hastings	

Ex Officio Members: Flynn and Perrault.

(Quorum 5)



Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the Affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, May 15, 1975

(17)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met *In Camera* at 9:15 a.m. this day.

Present: Honourable Senators van Roggen (*Chairman*), Barrow, Cameron, Carter, Connolly, Croll, Grosart, Lafond, Laird and Rowe. (10)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee; and Mr. H. E. Ezrin, Programme Control Officer for the Western Hemisphere, Information Division, Bureau of Public Affairs, Department of External Affairs.

Witnesses: From the Department of External Affairs:

Mr. Patrick Reid
Director General
Bureau of Public Affairs

Mr. L. R. O'Hagan
Minister-Counsellor (Information) Canadian Embassy
Washington, D.C.

Mr. R. C. Anderson
Consul General of Canada
Seattle, State of Washington
U.S.A.

and

Mr. Allan Roger
Director of Information Division.

During the course of their presentation, the Departmental Officials referred to various publications and film presentations, which were on display in the Committee room.

As proposed by Honourable Senator Connolly, the Committee suggested that the Chairman pursue the possibility that the Parliament of Canada might make a suitable gesture to the Congress of the United States in connection with that nation's bi-centennial celebrations.

On motion of Senator Connolly (*Ottawa West*), *Resolved*—That portions of the proceedings of this *In Camera* meeting be included in this Committee's printed proceedings, subject to agreement by the witnesses concerned.

At 12:45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 15, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 9 a.m. to examine Canadian relations with the United States.

Senator George C. van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, this meeting is mainly to look into the question of the Government's Information Program in the United States. It is being held *in camera*. We have with us this morning Mr. Patrick Reid, Director General, Bureau of Public Affairs, the Department of External Affairs, from Ottawa; Mr. Dick O'Hagan, Minister-Counsellor in charge of Information at the Canadian Embassy in Washington; and Mr. Ray Anderson, Consul General of Canada, Seattle, Washington.

Both Mr. Reid and Mr. O'Hagan have had wide experience in information work. I have known Mr. O'Hagan, in this area, for a substantial number of years—I will not try to remember how many. Apart from his great ability in finding a first-class seafood place in Washington, I am sure there is much that he will be able to tell us this morning concerning our public information program out of the Embassy in Washington.

Mr. Anderson, the Consul General of Canada in Seattle, was mentioned more than once in the testimony given before the committee last Tuesday by Dr. Rutan and Dr. Young, from the West Coast. Apart from the information area, we might have one or two other matters that we will examine with you before the morning is finished.

It has been agreed that Mr. Reid will commence with an opening statement and Mr. O'Hagan and Mr. Anderson will follow. Senator Laird has agreed to lead off the questioning. I think you all have Mr. Reid's statement.

Mr. Patrick Reid, Director General, Bureau of Public Affairs, Department of External Affairs: Mr. Chairman and honourable senators, I understand that the purpose of this presentation is to provide you with an insight into the nature and extent of the information activities of the Department of External Affairs in the United States. There are, of course, other departments and agencies involved in promotional activities in that country—the Department of Industry, Trade and Commerce in trade promotion, and the Canadian government Office of Tourism in travel promotion are examples—and while our cooperation is close and useful both at headquarters and at posts in the U.S.A., the remarks to be made today are primarily from the perspective of officials of the Department of External Affairs. Nonetheless it is axiomatic that policy-oriented public affairs program thrusts in the United States grow from the everchanging political, economic and social relationships with “the friendly

giant”—most recently defined publicly by the Secretary of State for External Affairs in his January 23 keynote speech in Winnipeg. The changed relationship with the U.S.A. forecast in that statement quite clearly increases considerably requirements for the exercise of Canadian diplomacy, not only in the intergovernmental context but also in the public sector.

Ambassador Cadieux, in his appearance before you, also on January 23, dealt at some length with information and cultural affairs as an integral part of the activities of any diplomatic or consular mission, and particularly those in the United States. He mentioned that until very recent years, however, our information activities were limited and largely responsive in nature. Within the past year, however, we have been able to put in place an adequate basic structure, and a measure of the necessary resources, to engage in a progressive plan of public affairs in all our posts in the United States.

In technical terms, we describe our information work and our cultural and academic relations as “public affairs,” and in the department in Ottawa there are within the Bureau of Public Affairs divisional directors responsible, on a world-wide basis, for Information, for Cultural Affairs, for Academic Relations. This responsibility includes the overall planning and financing of initiatives in these fields which will support the advancement of the foreign policy objectives laid down for each Canadian post abroad. Generally speaking, proposals for public affairs activities are received from posts abroad on a yearly basis, as well as from various quarters at home, and, through a complicated process which has to take into account priorities of various kinds, finances, timings, manpower and other resources, an endeavour is made to provide each post with the means to carry out its inevitably increasing role in what is, essentially, public diplomacy. There is, in the system, a built-in flexibility and a great deal of on-going communication and adjustment—to deal both with immediate news and opportunity promotion—between Ottawa, Washington and the posts concerned.

The information program is designed to permit posts to carry out basic responsibilities both actively and responsively for public information dissemination arising from country objectives, to attain the greatest possible understanding from priority audiences for Canadian policies and objectives and to seek the maximum public information benefit to Canada from the local efforts of all departments and agencies, provinces and private organizations, businesses and citizens. Post programs are regularly and formally re-examined through liaison visits, regional information seminars and heads of posts meetings. The information program in its new form commenced, formally, with the 1974-75 fiscal year when, for the United States, 17 new man-years—an increase of 150 per

cent over 1973-74—were made available for deployment at the embassy and to certain of the 15 consulates and approximately \$900,000 in program funds—out of a global total of \$3.5 million—was devoted to the United States. This compares with about \$500,000 the previous year. Because of current stringency in government spending, it is clear that there will not be any marked increase in this particular budget for 1975-76. We hope, however, that at some time in the future we will be permitted to spend about \$2.5 million yearly, at today's prices, on information work in the United States. We believe this approximate figure would provide for an effective, dynamic, program to cover all 16 Canadian posts.

The cultural affairs program is also in a state of transition, on a world-wide basis, especially as the result of a 1974 cabinet decision that the Department of External Affairs should embark on an expanded five-year program abroad which would reach its plateau in 1979-80. The impetus for the expanded program is twofold. There is the need to meet growing requirements and extend geographically the scope of our existing cultural program in support of foreign policy objectives; to the United States specifically, among other key countries. On the other hand, there has occurred in Canada a cultural "explosion", a remarkable expansion of creative and intellectual capacity and activity, which creates legitimate demands from cultural and academic communities for increased opportunity for international exposure and experience. Allied to this, of course, is the opportunity presented in such a program to highlight the bilingual and multicultural nature of our country.

That this can be effected in the United States is demonstrated by a project which the Cultural Affairs Division of the Department of External Affairs initiated some time ago in anticipation of the U.S. Bicentennial and which will involve, for two weeks at the Kennedy Centre in Washington this October, a festival of Canadian performing arts that will be unique. In association with the Touring Office of the Canada Council, the plans for this opening Canadian salute to the Bicentennial will include Monique Leyrac, Oscar Peterson, Maureen Forrester, the Mendelssohn Choir with the Festival Singers and Canadian Brass, the National Arts Centre Orchestra, the Royal Winnipeg Ballet, La Belle Helene, Louis Riel, the Shaw Festival's Devil's Disciple, the Halifax Neptune Theatre's Billy the Kid, and a rock concert.

Senator Connolly: You mean you left out the Irish Rovers?

Mr. Reid: We left them in Japan the last time out, sir.

Some of these performances will move on to Philadelphia and, to round out the project regionally, there will be tours of Le Théâtre de Nouveau Monde on the East Coast and the Vancouver Players on the West Coast.

The cultural program to be designed for the United States in the coming years will include not only the performing arts but visual and literary arts, as well as various types of academic and artistic exchanges.

In the field of academic relations, I should underline the importance being given to the development of Canadian studies programs at universities in the United States. Our objectives include the establishment of an expanding nucleus of influential persons, informed about and favourably disposed toward Canada, and the development of an awareness of the distinctiveness and quality of Canadian scholarship.

Ambassador Cadieux brought the realm of our public diplomacy in the United States into perspective when he said that ultimate benefits accrue when we acquaint our American neighbours with the essential nature of our culture and the reasons behind our policies. As the Canadian government continues to respond to national requirements, which very often are different from or even run counter to American policies or priorities, there is an evident need to make the Canadian position known to those who influence American policy and public opinion.

In essence, there are two major goals in Canada's public affairs programming in the United States. The first is to provide key audiences of opinion-formers with information about Canada today. The second is to build a basis for better understanding in the future. Obviously, there are many occasions when these goals are attainable in a single program or project, such as "Canada—Not for Sale," which was broadcast on 243 television stations of the Public Broadcasting System in January. Nonetheless, there are fairly well defined patterns, in terms of technique, between the long-term and short-term goals.

In order to get Canadian views to posts as quickly as possible the Canadian Press wire service was extended to six U.S. posts in addition to Washington and New York in 1974, and a trained news editor is currently being recruited to provide improved summary bulletins and edited policy statements to posts by departmental telex. As Mr. O'Hagan will explain, the Embassy in Washington publishes a variety of timely information pieces for distribution throughout the United States and, as Mr. Anderson will amplify, the consulates augment this enterprise to their own special publics. It is the responsibility of individual posts, principally through their information officers, who in most cases have just been recruited, to get the well-told truth to the media and to other opinion-formers. I use the word "principally" advisedly, because it is a maxim of considerable and increasing importance that all Canadian officials serving abroad consider themselves to be in the public relations business for Canada and work at public diplomacy to the best of their individual capabilities. Reaching out to opinion-formers is hard work, but it can pay off. A recent syndicated column in the Washington *Star News*, entitled "Special Tie with Canada has Ended," was a well-balanced, thoughtful and understanding commentary on our evolving relationship with the United States. The writer quoted both Mr. MacEachen and Mr. Cadieux extensively. This knowledge was not acquired by accident.

One of the most important means of improving knowledge and understanding of Canada is a Visitors and Speakers Program. During 1974, 117 key members of the U.S. media, including the Stanford Fellows and the Nieman Fellows, visited Canada and followed programs that exposed them to key politicians and officials and to every important facet of the current times in this country. In addition, 17 large teacher and student groups were given similar tours. Indeed, our capability in this sort of activity in the future is constrained more by the Canadian side's capacity to receive more visits of this kind than by any lack of quality clientele.

In a similar pattern, but in the reverse direction and with a longer-term goal, is the Canadian studies program I have already mentioned, which seeks to interest an increasing number of the 1,500 universities and colleges of the United States to teach courses on Canada. Thanks

to private funding, principally from the Donner Foundation, and independent academic initiatives, some of the foundation stones for Canadian studies are already in place. Courses in Canadian studies have been established at such universities as Yale, Duke, Columbia, the School of Advanced International Studies of Johns Hopkins, Northwestern, Western Washington State, Michigan State, Harvard, Maine, St. Lawrence, SUNY Plattsburgh and Rochester. For the Centre of Canadian Studies at Johns Hopkins it is our intention, if funds can be made available, to provide a modest grant as part of Canada's participation in the U.S. Bicentennial.

One means of establishing Canadian studies programs within the American academic community would be the endowment of a series of Chairs. However, because the endowment of a chair is prohibitively expensive—about \$1 million each—and the long-term value of this method is being undermined by inflation, we are developing a wide range of other programs to achieve our objectives. These will include visiting professors, eminent speakers, seminars on Canadian themes, faculty retraining, and library support. A senior officer at the Embassy in Washington devotes almost all of his time to stimulating the development of Canadian studies. He travels widely and effectively and is supported by the cultural and information officers at the consulates.

The results of the relatively new impetus that has been given to Canadian studies by academics working in co-operation with our officers are already visible. In 1971, a small group based largely at the universities mentioned above and with the support of the embassy, launched the Association for Canadian Studies in the United States. This association has flourished and now has 353 members in the U.S. The eastern seaboard has been a particularly fertile area for Canadian studies.

Senator Connolly: Do you mind if I interrupt you?

Mr. Reid: Certainly not.

Senator Connolly: Are those 353 members individuals, or are they universities, colleges, and schools?

Mr. Reid: They are individuals.

Senator Connolly: Thank you.

Mr. Reid: In New York State alone, there are 34 universities and colleges which now have some significant Canadian studies course content. The ACSUS receives a modest contribution yearly from the Canadian government.

However, the matured results of this approach are likely to become evident only over a longer term. It is a process which, once well established, should be enduring. Indeed it should be a reproductive process for, as Canadian studies establish permanent roots, there is some prospect that the programs should begin to seed their own development in other universities. In this way, we hope that a growing number of Americans who move into the senior ranks of government, business and cultural organizations will have a balanced awareness of Canada.

We are also endeavouring to improve the awareness of Canada at the high school level. In cooperation with the Canadian Studies Centre at Duke University, we are currently supporting a curriculum preparation workshop for North Carolina teachers. If this experiment is successful the program will produce modules of instruction about

Canada which will be available for use throughout the U.S. schools systems.

High schools also receive, at the rate of 200 schools a year, presentations of Canadian books which provide a basis for enriching existing curricula about Canada in U.S. secondary schools. As with many other general purpose programs in the public affairs field, this project is currently under audit by a team of consultants.

Each post has a library of books, periodicals and films. The first are primarily for reference purposes and answering enquiries; the last are primarily for loan. It is intended that all posts will have about 600 titles in their film libraries, both National Film Board and others, in French and in English. Heretofore French-language films have been concentrated primarily in Boston and New Orleans, but this procedure has been altered in order that all posts, wherever they are in the United States, will have an equivalent relative capability to provide information in both official languages. Showings of films range from the United States premiere of "Kamouraska" at the Kennedy Centre in mid-April to the loan of "Who Owns the Sea?" to a high school in Detroit for an environmental seminar. Publications have, of course, been uniformly available in English and French everywhere in the U.S.A. While statistics are question-prone, it is a remarkable fact that, on the basis of nine posts surveyed in depth in the fiscal year 1973-74, loans of films were made to a total audience of 2,097,676. Publications provided by the department to posts in the U.S.A. for general distribution in the same fiscal year exceeded 1,300,000. This is in addition to publications produced by the embassy. Eight exhibits are currently on tour in colleges, libraries, high schools, public buildings, and even in shopping centres.

The list of techniques goes on and on, but perhaps a good way of tying it all together is to consider our methods of building up the presentation of Canada's position on the Law of the Sea Conference. Relevant aspects of this position have been included in television and radio programs, in exhibits, and in films. Two publications, all aimed at various audiences in the United States, and elsewhere, have been produced. Media reporters, unionists and business people have been sought out and spoken to. There has been, of course, a great deal of direct consultation in Washington. A cartoon film on the subject and destined for the Canadian Pavilion at Expo '75, Okinawa, will have a second life not only in film libraries in the U.S. but also on television.

In another instance, in the realm of general public relations, we were able—in cooperation with the Provinces of Alberta and British Columbia—to turn the Canadian participation at a 1974 exhibition in Spokane, Washington, into a memorable tradition by having an island in Spokane River renamed "Canada Island"; by creating a permanent park on the island of such quality that it has won three of the most important environmental awards in the United States; and by an agreement which provides that the flags of Canada and the United States will fly there, side by side, in perpetuity.

In other words, there is no limit to the inventiveness that can be applied, and is being applied, in the creation of specific programs. The limitation is one of resources. The criterion is that we have something compelling to say or explain. The essence is that we know precisely the audience to whom the message is to be delivered and

that we have the stamina to persevere in the most sophisticated and self-concerned market in the world.

Two people who are doing so are Mr. O'Hagan, the Minister-Counsellor (Information) in Washington, and Mr. Anderson, our Consul General in Seattle.

The Chairman: Thank you very much, Mr. Reid, for a most comprehensive and thoughtful opening presentation. Without further ado, I will go to Mr. O'Hagan and then to Mr. Anderson.

Mr. L. R. O'Hagan, Minister-Counsellor (Information), Canadian Embassy, Washington: Thank you, Mr. Chairman.

Honourable senators, the role of the Embassy in the Information or Public Affairs field has expanded significantly in recent years. It is a process in which since 1967 I have been privileged to play a part. When I arrived on the scene in Washington, the Information staff, in addition to myself, consisted of one other Canada-based officer, a librarian, a film clerk, two stenographers, and a general clerk. While there was no sudden rush of resources, to my considerable gratification, I pleasantly found in the Department of External Affairs an open and forthcoming attitude toward information work, a readiness to accommodate new ideas, new initiatives, and to give them reasonable material support. It was most encouraging.

It was critically important, of course, that we have the support of the Ambassador. This we happily received in unstinting measure, first from Mr. A. E. Ritchie, and then from Mr. Marcel Cadieux. People breaking new ground are usually grateful for any doctrinal underpinning they can call upon, the more so if it comes in quotable form. Let me cite the most apt and recent I have seen. It is from a very wise Canadian, Dr. Claude Bissell, former President of the University of Toronto, who recently completed a study for the Department of External Affairs on the proposed Institute of Canada-U.S. Studies.

Good Canadian-American relations,... wrote Dr. Bissell in his report:

...depend ultimately on American knowledge and understanding of Canada.

There is a challenge implicit in this statement. If I am correct, how are we in Washington equipped to meet it? Let me describe briefly the organizational and functional features of what we call the Office of Information at the Embassy in Washington.

At this moment we are 19 people—five program officers and a cross-section of other specialists and support staff. We also have four persons working for us on a contract basis.

The end of the year should see an encouraging increase in Embassy personnel assigned to Information: six Canada-based officers, which represents an addition of one; five locally-engaged officers, an increase of four; 15 or 16 support staff, including our library people, an increase of two or three—a team of 26 or 27 in all.

We will by then have come a long way since 1967. But this is not the millenium; it brings us finally, I believe, to a minimum operating level, the threshold point, in terms of meeting realistically the persistent and escalating demands we face and must satisfy. We all know, of

course, numbers alone are not the answer. What counts most is the quality of people, their skills, attitudes, and experience, factors which are being taken increasingly into account as personnel assignments are made.

You have heard from Mr. Reid about the deployment of Information Officers of the locally-engaged category to our various posts throughout the United States, a clear demonstration, I think, of the commitment the Department of External Affairs and the Government of Canada have made to the enlargement and upgrading of the Canadian information capacity in the United States. We have at hand the beginnings of a professional public affairs system.

In this context, Mr. Chairman, may I say a very brief word about New York, which is unique among our posts, precisely because New York is what it is, the communications, cultural and financial capital of the United States. It is why the collaboration between our Consulate General in New York and the Embassy is and must be both close and systematic.

With your permission, Mr. Chairman, I would like to acquaint you and the members of the committee with the program areas in which we are principally engaged at the Embassy, and to sketch some of those which are in prospect or at least under consideration.

Median relations and services are plainly of high importance to us at the Embassy in Washington, as they are at all our U.S. posts in the United States. But in Washington there is a difference, a special difference. As the political capital of the United States, it shelters what is by far the largest corps of correspondents in the world, domestic and foreign, including all the most widely read and influential syndicated columnists. It is home to newspapers and periodical of national standing and to some of the best known public affairs television programs carried by the foreign networks, including the Public Broadcasting System. The resident Canadian press corps constitutes a component of this whole, performing a most important interpretive and feed-back role. None of you, I am sure, will be surprised to learn that we can assume no automatic or informed interest on the part of most American journalists, and even less on the part of the great body of third country press representatives based in Washington, many of whom have at least a nominal mandate to "cover" Canada. Even with constant, careful cultivation, with alert professional servicing, we can count on little enough attention from the best of these busy, distracted people, that is short of some unanticipated headline-crisis. All of which makes the results, when they come—and they do come from time to time—that much sweeter. In the meantime, this demanding, necessary duty, calling as it does for special skills and application, stands at the top of our priority list.

The Canadian Publications Program in the United States, though modestly scaled, is an enterprise in which I believe we all can take pride. Its centrepiece is *Canada Today/d'aujourd'hui*, a small general interest magazine, now five years old, produced in colour and observing, if I may say so, very high editorial standards. In no sense is it a predictable or traditional embassy-government publication, which accounts in the main, I believe, for its extraordinary success. I do hope some of you take the opportunity to look at the sample copies we have here.

Senator Croll: Tell us how we can get copies. I have always enjoyed them.

Mr. O'Hagan: I think we can put you on the mailing list without any difficulty, senator, and we would be happy to have the whole committee on it. I might say that we have had innumerable requests from Canada from private citizens. But costs being what they are, we have had to set a policy which we, in general, have tried to be scrupulous in observing, namely, about producing the magazine and sending the magazine to Americans, for whom it is designed and produced. We would be very happy, though, to ensure that the members of the committee who are here this morning receive a copy.

Senator Croll: I think, Mr. Chairman, it would be a good idea to have the members of the committee on the mailing list.

The Chairman: Yes, I think it is very worthwhile, particularly since we will be continuing this study through next year on the trade side, when we finish this.

Senator Connolly: We will be continuing this a great number of years.

Mr. O'Hagan: Simply stated, this is a periodical which seeks to impart the flavour of Canada today to Americans. It leans much more toward providing insights into the quality and flavour of life, development, trends, and so on, than policy movements. It is broadly and consistently praised for its content, and wins prizes for its appearance. It is issued 10 times a year and at present it goes to something over 40,000 addressees. In the main, it is a select and elite audience. It takes time and careful management to build such an audience, even when the product is given away. Even so, we look forward, over the next three to five years, to a doubling of circulation, budgetary conditions permitting. When one considers that in a country with a population approaching 220 million, *Canada Today/d'aujourd'hui* is the only Canadian print voice, publicly or privately sponsored, with a consistently growing and consequential following, we know, as a result of this, that we are making a material contribution. We cannot, of course, expect to fill that void with *Canada Today* alone, but we are trying.

Our other publications are of a more specialized nature, but no less valuable. For example, *Canadian Press Comment*, a weekly survey of Canadian editorial opinion, which goes to some 2,000 persons with an applied interest in Canada and Canadian subjects, writing, teaching, trading and investing. We know from our research that it is not only appreciated as a vehicle of information, but that it has a very high utility quotient as a working tool.

Directly in response to the so-called energy crisis and to the effects which flowed from consequent changes in Canadian pricing and supply policies, the Embassy, through the Office of Information, created a publication called *Canada Report*. Its purpose as distinct from the purpose of *Canada Today/d'aujourd'hui*, is to carry the Canadian policy message, to answer in authoritative, economical prose, questions which may arise from a given Canadian policy. It is directed chiefly toward legislators, bureaucrats, editors, business people. The numbers that we have produced to date—two on energy and one on the Foreign Investment Review Act have been very warmly received. Other subjects are being studied for

treatment in future issues, produced with somewhat more regularity, although we intend to obtain maximum flexibility in our publishing schedule as a means of producing timely, official material on questions subject to misunderstanding and possible controversy.

I might just add, here, Mr. Chairman, with the increment and resources that we look forward to in the autumn, it will be rather more easy to produce this kind of paper because it takes an enormous amount of care and attention, as you can imagine, synthesizing all the policy nuances and consulting prime ministerial and ministerial statements, and what-not—the National Energy Board's role, if the subject is energy.

I have referred to media relations and to publications. May I now say a word about academic relations? Since this was taken up at some length by Mr. Cadieux in his remarks last January, and today by Mr. Reid, I will do no more than restate the obvious, namely, that the building of knowledge and sensitivity toward Canada in the colleges and universities of the United States is one of our most important obligations. It is to this end, through encouraging and assisting the development of teaching and research on Canada and Canada-U.S. relations, that the Embassy academic relations program is directed. As with other aspects of our information work, it is a comparatively new field for us. The program began formally only in 1968.

I do not propose to discuss specific cases of achievement and promise recorded under this program, although there are many. We have made respectable progress, but when we remind ourselves that the great majority of the better colleges and universities in the United States—and there are 1,500 or so of them—give no substantive attention to Canada, you will recognize how much there is yet to be done. The development and promotion work in this vital sector goes on apace; it is national in scope, conducted in close collaboration with our consular posts.

I will conclude this portion of my remarks by expressing the confident expectation that this time next year we will have accumulated sufficient experience and evidence to permit a comprehensive evaluation of progress made to date in the academic relations or higher learning field, and what our aims should be across the next five to ten years.

What I have offered here, Mr. Chairman, is a tour d'horizon in which some of our more prominent activity-features have been highlighted. Clearly, while government is at the cutting edge of our information effort in the United States, it is not alone. Business plays a role—one thinks particularly of the lively interest of the Canadian Export Association; so do such independent entities as the Canadian Institute of International Affairs. Tomorrow we will be meeting two or three representatives from the Institute to discuss a proposed visit to Washington, the second that they have had there in the last three years. They were there on or about a year and a half ago. Nor should we overlook the role of Radio-Canada International, nor of the domestic services of CBC and Radio-Canada in both languages which are received mainly in the northern states. Wherever those broadcasts are heard, it is with much profit and appreciation. But so much more remains to be done and, because the market is vast, we need at all times to be selective and focussed in what we undertake, and, above all, if I may say once again, to be

outstandingly good in execution. It is self-evident that we must constantly search out opportunities to sell ourselves and to tell our story frankly and persuasively; that in doing so we must press against the boundaries of convention and creativity. We must reinforce and enlarge many of those programs now in place—for example, enlarged visits programs may be one of the very best things we can do. Mr. Reid has already alluded to the capacity of the machinery to absorb marked escalation in this area. One has no difficulty imagining the results that derive from a more regular and larger flow of educators, business leaders, academics, artists, professionals of all disciplines, public administrators and, especially, political people at all levels.

The cultural affairs dimension, which Mr. Reid has mentioned, is an exciting prospect. In our North American cultural system, interlinked, as it is, to such a degree, there is inevitably substantial commerce in all forms and expressions of the arts. But government can do much to make possible many of those affirmative things which are not done, have not been done, and are unlikely to be done without its intervention.

One or two final points. Right now we are actively exploring at the Embassy a special radio service, one which would be complementary to that now provided by Radio-Canada International, and for which our research indicates a ready market. It would be a recycling, in part, of the material researched and gathered for our publications, principally *Canada Today/d'aujourd'hui*. I am personally also persuaded that there are interesting possibilities yet untested for television material, short documentaries, topical program segments, and the like. It goes without saying that both these services, should they proceed, would need to be handled with political as well as technical care. I might also add that in the case of television it would be a costly initiative.

One last word on publications. There is no doubt in my mind that we have yet to exploit all the interesting possibilities open to us in this area. I can conceive of at least two other major Canadian periodicals circulating with effect in the United States. I suggest that in one case—perhaps even in both—they might be offered for sale to the public and, if we chose this route, prove interesting vehicles for advertisers. That is just a thought to be left on the table.

Whatever approaches we investigate and adopt—and those that I have mentioned here are only illustrative—we may be fairly sure that for the next decade, at least, there will need to be more and better government information work in the United States.

The Chairman: Thank you, Mr. O'Hagan, for those interesting remarks. I will now call on Mr. Anderson.

Mr. R. C. Anderson, Consul General of Canada, Seattle: Honourable senators, in continuation of the presentation, I should like to outline the role of one of the Consulates General, and in particular the Consulate General in Seattle. The area of our jurisdiction includes the states of Washington, Idaho, Montana, Oregon and Alaska.

My major responsibilities, as head of the Seattle post, are to protect and promote Canadian interests in that area, which include the guidance and direction of all the Canadian government programs. We have four major programs at our Consulate. The program of the Depart-

ment of Industry, Trade and Commerce has, as its prime objective, the expansion of trade between Canada and the Pacific North West and Alaska. This involves a wide variety of trade promotion techniques. Our major activity is in locating and developing markets for Canadian manufacturers and producers. In addition, we work with both the federal government and the provincial governments in organizing trade missions to our area. Our continuing activity is the promotion of Canada as a source of goods and learning about our particular marketplace, the methods of distribution and the development of business contacts, so that our information is current and relevant, and, therefore, of maximum assistance and guidance to Canadian exporters.

In the manpower and immigration field we are also very involved. With the adoption of the new immigration legislation in 1972, our activities have increased many times. The officers involved in this program interview and select prospective immigrants from applications received. During the past year we have been called upon by individuals, as well as the media, by state and by civic government representatives, to provide information on changes in the Canadian immigration regulations which have a direct effect on persons in our jurisdiction who wish to take up residence in Canada.

Another area of activity is the program of the Canadian Government Office of Tourism. Our territory provides one of the largest sources of tourists to Canada, particularly to British Columbia and Alberta, although we have seen a growing number of tourists who are headed for Eastern Canada. We do not only supply information, but work specifically with travel consultants and tour agents in order that we utilize facilities that are available in Canada, particularly in off-peak times of the year. This activity requires promotion. It just does not happen. There are seminars, films and personal contacts to ensure that tour and travel agents are aware of our facilities in Canada.

In each one of these program areas there is the direct support of our Information and Public Affairs Program; a projection of the Canadian image in its various dimensions, using the information materials which Mr. Reid has outlined and Mr. O'Hagan has continued.

In the External Affairs program we are involved in liaison, developing contacts with local and state governments so that access is assured once a particular Canadian position needs to be explained, whether its main thrust is economic, environmental, political, or whatever. We are also involved with the media in providing information about Canada and about our particular interests and problems.

The position papers supplied from Ottawa and the Embassy and, as was mentioned a little earlier, the position papers that had been supplied on energy and on the Foreign Investment Review Act have been particularly useful. We have also been involved in the media visitors program, bringing to Canada outstanding columnists and editorial writers. This has provided a great opportunity for them to learn more about Canada and, invariably, there is a result in our local press.

One of the exciting new areas of our involvement is in the field of academic relations. As Mr. O'Hagan has outlined, we are promoting and encouraging the teaching of Canada at universities. This is done by calling upon the universities, and particular professors, and particular

schools, by book presentations and exhibits at the universities, Canada Weeks and film festivals, and assisting in the organization at universities, of seminars and conferences. These seminars and conferences focus on Canada.

At the Consulate we have a speakers' bureau. This includes all Canadian officers, whatever program they are involved in, who undertake selected speaking engagements. This is done to promote interest and knowledge of Canada and to make our audiences aware of the conditions, opportunities of particular interest, whether it be in the economic field, business field, cultural field, or tourism.

In the cultural affairs area we are involved in promoting Canadian performers and artists. To assist us and in support of our programs, through the Consulate General, through the beneficence and the planning that has been done in Ottawa, we have a film library of Canadian films. These are for utilization in the various program areas. We have a reference library of Canadian books and resource materials that has been developed for secondary schools—teachers' kits, students' kits, so they can learn, at that level, more about Canada. We have the same sort of material developed at the university level, so resource materials are available to us. From our particular area *Canada Today/d'aujourd'hui* has a selected list of 1,500 leaders in governments, business and the cultural areas.

The Chairman: Excuse me, 1,500 across the United States, or in your area?

Mr. Anderson: No, just in our area. We have been involved in selecting the people we want to have on the list to receive it the ten times a year that it comes out.

The Chairman: Fifteen hundred in those states that you mentioned?

Mr. Anderson: Yes. It may be interesting to you if I outline highlights of the activities of the Consulate General just during the last ten days immediately preceding my coming to Ottawa. I think that it is interesting because you will see the support of these programs that the information activity supplies. Recently we have had a visit from one of the British Columbia cabinet ministers who came to speak in Seattle for Canada-U.S. International Goodwill Week.

Senator Croll: Was that before or after they put on the tax?

Mr. Anderson: That was after they put on the tax.

Then we had a visit from the Assistant Deputy Minister of Economic Development from the Province of British Columbia who came down to talk about trade development opportunities for British Columbia manufacturers. We have just gone through the final stages of preparing for an Ontario Trade Mission that will be coming to Seattle and then going on to Alaska. This is happening in June. We had an Olympic coin presentation at one of the outstanding sporting events held in Seattle which fourteen thousand people attended. It was also on radio and television. One of our officers, who is involved in the information activity, was in attendance at the Pacific North West Higher Education Conference in Montana. Also, just this past Friday, we had a

seminar in Canada. This is in continuation of a program that we have been very much involved with at the graduate school of Business Administration, the University of Washington, in Seattle. They have been focusing on business relationships this past year between Canada and the United States. This has been a continuing program and they have had a whole series. We had a visit of 18 tourist facility operators from the Northwest Territories, Alberta and British Columbia who came in to meet tour agents and travel consultants in Seattle, and they used the facilities that we offered. These are the various actual programs that we are involved in with the public affairs contact.

During my time in the foreign service I have served in the United States on three occasions. It is an extremely exciting time to be in the United States. It is challenging because of the size of the market and because our relationship is so very important. Because of the changes in our priorities as a country, there is a requirement that our position, our attitudes—that Canada be presented to the United States. One of our foremost priorities is continuing good relations with the United States. This, in my opinion, depends upon the United States knowing as much about Canada as possible, because from knowledge comes understanding.

The Chairman: Thank you very much, Mr. Anderson.

Just before calling on Senator Laird to commence the questioning, I wish to mention some things that I should have mentioned in my opening remarks this morning. On Thursday, of next week, Mr. Alan Hockin, who was an Assistant Deputy Minister of Finance and is now Executive Vice-President of the Toronto-Dominion Bank, will be here to give evidence on financial institutions between our two countries, followed by a telephone hook-up that we have arranged with Mr. Abshire, formerly in charge of congressional liaison in the State Department, who will discuss Canada's relations with Congress. Certainly that is a subject some of these witnesses this morning may throw some light on.

I am also pleased to say that Mr. MacEachen, Secretary of State for External Affairs, has agreed to appear on June 10, which will almost coincide with the conclusion of this portion of our study of the mechanisms between the two countries, before we proceed to "Trade."

Senator Laird, please go ahead.

Senator Laird: First of all, Mr. Chairman, may I say to these three gentlemen how gratifying it is to hear of the tremendous progress that has been made in the last 25 years on the dissemination of information on Canada in the United States? I speak with some degree of knowledge: I live on the border, at Windsor; and, secondly, I married a "foreigner", a girl born south of the Mason-Dixon Line and who had lived there all her life before she married me. With that background, I want to ask you, in spite of all the mechanisms which are now available to us for the dissemination of information, do you find that there is still a great problem of apathy on the part of Americans regarding Canada?

Mr. O'Hagan: There is some apathy, senator, I think that must be admitted. But it is no longer as pervasive as it once was, for one or two reasons, which will be obvious to you and other honourable senators. The whole question of energy has brought things into focus in a very real

way. That is an indisputable fact. When policies, however well intentioned, in another country, impact a partner or neighbour in a real way, as we know some Canadian policies have done—the pricing and supply situation with gas and oil for example—there is an interest that is a focussed, often a regional and real. That has to be coupled with the fact—and I do not want to overstate it in any self-serving way, on my own behalf or my colleagues'—that there is a slowly building awareness that Canada is something more interesting than most Americans heretofore have recognized. There are things happening in Canada and therefore there have to be adjustments made to them. They are not all pleasing to every American, clearly, but things are happening. Canada has to be taken into account, and this has given rise to a new, somewhat higher and building level of awareness.

I might add one footnote, that I suspect we would probably have made even more progress in recent times, had it not been for the enormous distractions that American society and American leadership have been subject to both domestically and abroad.

Senator Laird: You mentioned energy, and that brings me to the second point I wanted to question you about. Do you not find a tendency for the Americans, in spite of the fact that they have some knowledge of Canadian problems, to seize upon a simple problem and concentrate on that, to our disadvantage? Talking, for instance, about the export tax on oil, my experience was that this was a sore topic down there, and I even heard a fellow on the Fort Meyers television station simply ignoring the facts and saying some frightfully nasty things about Canada. It is an oversimplification of a simple point, which is inclined to raise animosity. Do you not find that happens?

Mr. Anderson: It certainly does. In my area, because most of the states that I cover are close enough to the border that there has been communication, the thing I found rather than apathy, to begin with, was misunderstanding, misinformation. There was the assumption that they did understand and did know Canada, and then suddenly finding out that Canada has established priorities as far as being a country, and that these do not necessarily match the priorities established in the United States. Then there is tremendous bewilderment that we could possibly take an action like putting an export tax on oil. Without any background or understanding, it comes as a great shock that we are importers of oil on the east side of Canada and exporters of oil on the west side, because of the economies of the situation. They were never aware of that. Our problem has become one of getting this information to them as quickly as possible, so that once the headlines hit, then over you get to the media, to the people who are making the pronouncements, the people they listen to, so that they have this background information. We ensure that we have contacts that are well enough established so that we have the ready entree to these people to provide the information. As I think most of us have found, Americans are reasonable. As long as you can present your case, they will treat it with great understanding because there is an enormous amount of goodwill. But you have to give them the information, and you have to give them the facts, so they will understand. I think the situation in our area now is one of understanding. They do not particularly like the high prices for oil and natural gas, but there is some understanding, at least in part. That

is what we are really aiming for, an understanding of what Canada's position is.

Senator Laird: Mind you, you are fairly close to the border. Mr. O'Hagan might have found a different state of affairs.

Mr. O'Hagan: When you speak of Fort Meyers, and a feeling very often of the absence of sufficient information. Sometimes, I am afraid, in instances even when information has been made available, there is somehow a feeling of hurt, a feeling of resentment that somehow we have broken stride with the United States in some peculiar way and that we are being awkward. It takes time to bring people around to the idea that we are really masters in our own house and have to do certain things in our national interest, as Mr. Anderson has said, that we have our own priorities. This is difficult because it has an emotional content; it is difficult to cope with. It is in much the same category as the deserters and draft evaders. We were somehow seen by some as aiding and abetting these people. It was an enduring issue; it was very high in the American consciousness.

Senator Carter: They find it so difficult to see Canada as an independent, sovereign country. Do they have that same problem with Mexico? If not, why?

Mr. O'Hagan: I do think this is a conceptual problem. It is a problem in practice. I do not think that somehow there is any assumption or any disposition to view Canada as other than but independent and sovereign. Somehow, because of the similarities of system and values, the cultural dimensions, and so on, when it comes to practice, when it comes to something like the resource question, or whatever, then there is the difficulty of adjustment. In the case of Mexico, no. Mexico is clearly perceived; Mexico is sufficiently and manifestly foreign in American eyes.

Senator Carter: They do not regard Canada as a foreign country, but rather as an extension of the United States?

Mr. O'Hagan: I do not think it is fair to say that, senator. That would be putting a construction on it that is perhaps unfair. There is, and continues to be, a feeling that we are part of the same sort of social and cultural system, even though we do manage our own affairs. No responsible person wishes to intrude on that.

Senator Carter: They do not feel hurt if Mexico breaks stride and goes on its own way, but they do feel hurt if Canada does?

Mr. O'Hagan: That is my view.

Mr. Reid: The Americans get this attitude from the mass media. It is our job to get to the mass media and, hopefully, beforehand . . .

Senator Laird: Let me relate a little incident. It was a very hot day in Florida about a month or so ago. I felt the need for some ice water, and I went to what looked like a platform, somewhat like the one you are sitting on there, with stools. This gentleman was an executive from Chicago. He sat down. Americans have a habit of drawing you out as to what you do. In fact what he said was, "What do you do up in Canada?" Having told him,

he started on this oil business just to try me. I started to explain. He said, "Look, you don't need to explain to me. I know why you have the export tax on, for the export on western oil, because you have to subsidize the price in the East." The mass media plus the *Wall Street Journal*, must be working at times.

The Chairman: Did you have a supplementary, Senator Croll?

Senator Croll: I just wanted to say one thing about Florida. Canada was mentioned every day while I was in Florida. They began every morning by saying, "A cold wave is coming down from Canada." Outside of that, they never mentioned it.

Senator Laird: I want to ask you gentlemen if the recent trip of the Prime Minister to the Common Market countries, and the expressed intention of a closer trade relationship, has in your experience created any bad reaction in the United States.

Mr. O'Hagan: No, I do not think so. I must say in all candor that trip got very little attention in the United States. In official circles Canadian policy intentions, the third option concept, and so on, are well understood and accepted. Since we are talking about popular attitudes and general communications, and so on, I think that news of this kind has yet to come home to the American population at large, even the informed sector.

Senator Laird: Perhaps that is one good reason why there still remains a certain amount of apathy, a lack of attention. If it did come home to them, I predict that some might resent this apparent sloughing off of the United States.

Mr. Reid: I do not think the sophistication of that totality has come across to Americans at large. What is coming across is, for example, evidenced by the *New York Times*, last Sunday, in an article headed "Canadians Seek to Spur National Consciousness." They are that far down the road to understanding something is going on up here that is interesting and, in some instances, has something of importance for them. When it comes close to home then, of course, the reaction can be one of concern and perhaps even exasperation. Our job is to try to explain, again and again, that it is not an unfriendly act that is being consummated in Canada; it is one that they should be able to understand.

Senator Laird: It has always concerned me that we do have some very vocal and prominent ultra-Canadian nationalists sounding off here. I have asked other witnesses in this committee whether or not that has adversely affected our friendly relationship with the United States. What has been your experience, gentlemen?

Mr. Anderson: Let me tell you what happened this past Friday. A seminar was arranged. The speaker was a well-known Canadian "nationalist" who came and spoke to a university seminar. Included in the group were a number of leading businessmen. I must say it was a beautiful and well-balanced presentation that he gave about the developing Canadian "nationalism"—for lack of a better word. I do not like the word "nationalism", because it gives a connotation that is not necessarily the right one. What he did was present a case.

To put it in context and where we were involved, although not with the invitation, we tried to ensure that during the seminar itself and the meetings that took place there was an opportunity for a more "middle of the roader" also to tell what was going on in Canada and what he foresaw happening in Canada. In other words, there is a diversity of opinion in Canada as to what is happening now and what is going to happen in the future. Americans in the audience are really sophisticated enough in order to appreciate the diversity of opinion. We really do not have a great deal to fear in this area. The many voices of Canada are heard and heard in their diversity. You get the mosaic of Canadian opinion, rather than the presentation of a set line, as far as concerns what Canada is, what Canada is doing, and what the future holds for us as a country.

The Chairman: Just to exemplify your question, if I may say, Senator Laird, as I understand the answer, what might be described as an anti-American outburst of one of the ultra-nationalists in a speech in Canada would not be picked up by the media there and played at a higher key than other statements in Canada concerning our relations.

Mr. O'Hagan: Not in my experience.

Senator Rowe: There are 220 million people, roughly, in the United States. Does anybody know—and there must be some statistics on it—what proportion of that population is reached routinely by Canadian television?

Mr. O'Hagan: It is a very small fraction.

Senator Rowe: May I ask why this is? Last night, for example, I was turning the dial on my hotel room television and I am sure a third of the stations I was receiving were American. Would the same thing not hold true, for example, for somebody in Syracuse, in relation to Canadian TV?

The Chairman: No, there is not the cable in the United States that we have in Canada, Senator Rowe.

Senator Croll: They have six or seven other stations.

The Chairman: They have their own stations. In order to get the variety of stations in Canada we are heavily laden with cable.

Senator Rowe: Our television would have a minor effect in reaching the American population?

Mr. O'Hagan: Relatively minor.

Senator Carter: We beam radio to Europe. We do not beam radio to the United States, do we?

Mr. Reid: Yes, we do. Quite recently it was indicated that these CBC transmissions had outreached the BBC in popularity in the United States. It is quite a remarkable thing. There are also what we call topical discs sent out to some 700-odd radio stations in the United States by Radio Canada International. Mr. O'Hagan mentioned the Embassy is experimenting with tapes for radio dissemination which are based, to a large extent, on *Canada Today/d'aujourd'hui*. We are moving in that particular medium as fast as we can, so to speak.

Senator Cameron: What kind of audience would Radio Canada International have? Is there any auditing of that?

Mr. O'Hagan: There is. It runs into the millions. The audience figures are susceptible to misunderstanding. One has to be careful in using those figures. It is a very substantial audience. It is an audience that hears these things only periodically and perhaps irregularly. Radio Canada itself was very agreeably surprised by the size of the audience that it discovered when it did its survey. It is a very sizeable body of people who are conscious of the emanation of Radio-Canada International.

Senator Cameron: What depth would it have north and south?

Mr. O'Hagan: This is a broadcast service which is beamed into the whole of the continental United States.

Mr. Reid: A radio programme over the national public broadcasting system, which the Embassy was instrumental in implementing, had an estimated audience of one million.

Senator Carter: Could I ask somebody to look into the future a wee bit? When we get that satellites up there, it will be much easier to beam television. Do you see any opportunities there?

Mr. O'Hagan: There are fascinating opportunities in store there. It will require negotiation. If it can be worked out bilaterally, one can easily imagine the day when Canadian television programming will be seen regularly in the United States. There is an anomaly in that today, as close as we are, let us say in Washington or New York, there is no system, no mechanism in place to bring in such programs. Even if they were not for general dissemination, even if these programs were for special attention and one invited in 100 opinion leaders to see a particular program or series of programs for an evening, or for special presentation, the mechanism is not normally in place to do that. Looking into the future, I think there are very interesting possibilities there.

Mr. Reid: In the meantime, today, we have to work with what we can get our hands on. You may know that a year or so ago the *Today* show came to Canada. Quite recently the Secretary of State for External Affairs was on the same show, during his tour to New York and Boston. We have to pay something to make sure that the *Today* crew does come to Canada and puts on a show and broadcasts in its normal time segment. For the record, I think the last show in Canada cost us \$130,000, including the facilitative work that we had to do. If a similar show takes place again, it will cost probably \$200,000. It is a terribly expensive business, but it is very important because of the impact in the United States. There is the Mike Douglas show and the Martin Agronsky show, which cost less, but they have a smaller audience.

This is an area in which one can get results. We cannot, however, go to the extent of presuming that one can doctor what goes into these programs. These are free agents and they will report the situation as they find it. Invariably they report in a balanced and reasonable way, which is fine as far as we are concerned. The only constraint, as I think I mentioned at the outset, to get into television and continue in depth, is money. We do not have the resources to do so continuously.

Senator Rowe: As I understand, there are 15 posts in the United States. I take it that these, for the most part,

are in the larger population centres, having some regard for geography. Am I correct on that?

Mr. Reid: On the map the Consuls General are shown by the larger maple leaf. The smaller maple leaf represents the Consulates, which are primarily trade posts, and then the Embassy, making a total of 16.

Senator Rowe: I got the impression from Mr. O'Hagan that these two other periodicals ought to be disseminated in the United States. Were you thinking abstractly?

Mr. O'Hagan: I was. We produce this *Canada Report*, which is a policy paper, and this *Canada Today/d'aujourd'hui*, which is a small general interest magazine, and while these two perform a very useful service, I am merely suggesting that there are other possibilities that could be developed, and I personally believe ought to be developed, one day for distribution in the United States. Consider for the moment proximity. I said that it is rather striking that this small magazine, five years old, created by the Canadian government and produced at the Embassy in Washington, should be the only Canadian publication that reaches any kind of audience of any real size and influence in the United States. Contrast that, for example, with Great Britain and the *Economist*, and so on, privately developed publications. And from France, there is *Le Monde*, *Realités*, in their English editions, and so on. In other words there are inputs, points of view from abroad, that reach American opinion leaders or opinion formers which are simply not regularly available from a Canadian source. That makes the task of trying to register a Canadian point of view and to sort of build a Canadian awareness all the more difficult.

Senator Connolly: Just on *Canada Report*, the two that you have displayed, I notice that the first one is on energy and the other on the Foreign Investment Review Agency. Who writes those for you?

Mr. O'Hagan: The basic drafting is done in the Embassy. The first draft, for example, may be done by a freelance writer who has worked for us on a fairly regular basis. In all three of the reports—we have done two on energy and one on foreign investment—this was the case. Then the draft is worked over very carefully in the Embassy and the directly interested departments in Ottawa work on it.

Senator Connolly: They are enormously complicated problems.

Mr. O'Hagan: Yes, terribly complicated.

Senator Connolly: I take it that your approach is not to try to solve every problem, but to say what the general outline is.

Mr. O'Hagan: And to take reports from ministerial statements, government statements in the House of Commons on energy policy, and so forth, and try to knit these together in a piece of paper which is not so forbidding that even interested people will not take a look at it. We all know that the people who ought to read this kind of thing are the busiest people. So you have to try it to synthesize and compress these facts. It has tended to be a scrupulous and, to a degree, detached presentation of Canadian policy. The policy is there; it exists. If there are people who are confused by it, or in

any way hostile to it, we try to meet that with the most comprehensive presentation that we can make, within the limits of the probable availability of the time these people have for digesting this kind of thing.

Senator Connolly: In the case of the energy policy paper, there are a great many people in the United States who have a vital interest in Canadian energy, either as consumers or as producers. Can you make a reasonable attempt to cover a constituency as big as that in the United States?

Mr. O'Hagan: I must say it is very difficult, senator. We try to set up prime audiences. We try to make a judgment about whom we are trying to reach with a thing like this. I suppose if we had a model in mind, in the case of this paper it is the average, very busy member of Congress or member of the Senate.

Senator Connolly: Let me take another extreme. We have heard evidence to the effect that as a result of the energy policy proclaimed in Canada, drilling rigs are being moved out of the country at a great rate. It may be that the drilling companies might not do this, even though the immediate prospects may be very much better in the United States because of the pressure to develop energy resources. By any chance, would you think of trying to get this kind of information either to the drilling company organizations or to the individual companies? That is only one segment of a big industry.

Mr. O'Hagan: I must say that we have not addressed the problem in that sort of segmented way. We have not done that yet.

Senator Connolly: The crisis—and I think it appropriate to call it that—has not even developed fully yet.

Mr. O'Hagan: Yes.

Senator Rowe: I have one other question, Mr. Chairman, completely divorced from what we have talked about so far. We have had a little evidence lately that some of the investigative agencies in the United States have been playing footsie-tootsie, perhaps with at least one of our Canadian agencies. We are *in camera* here, I understand.

The Chairman: Yes, we are.

Senator Rowe: I will not ask you whether or not any of our posts in the United States have ever been approached by any American investigative authorities for information, but I will pose a theoretical question to Mr. Reid. What would happen if the CIA went to our post in Washington and said, "There is an SOB in Montreal or Vancouver, and we would like some information on his activities or his background"? What would happen in that case, Mr. Reid?

Mr. Reid: I am not sure I can answer you. There is obviously a liaison in the Embassy in the United States which would perhaps facilitate an inquiry like that. Do you know the answer to that, Mr. O'Hagan?

Mr. O'Hagan: I think we all know that there are fairly close relationships operating between police and security agencies in both countries, as there are with third countries. Due to our geographic proximity and the continental situation in which we both find ourselves,

it is particularly close between Canada and the United States. How a given inquiry or request is responded to, I must say that I do not personally have that information. I simply do not know.

The Chairman: It would not really come under your department.

Mr. O'Hagan: It would not be in my area.

Senator Croll: There was an answer to that in *Hansard* yesterday. Someone asked the same question in the House of Commons. There is a complete answer by the Solicitor General on that very question. I have known Americans for even longer than Senator Laird has because I am older than he is. I do not know of any Americans who have spoken to me over the years about taking over Canada. I also have known a lot of Canadians. I have never heard a Canadian say to me that he thought it was about time we joined the United States. At least he did not repeat it to me, if he said it. I do know about something that is happening. I was brought up in the school of special relationship with the United States. I liked it very much. Many of our people who are leaders in government not only fashion it but do their best to encourage it. I am particularly concerned with what is happening in this country at the present time. Much of it I relate to Connolly, when he made his decision on something that affected us. The Secretary of the Treasury came to Toronto one day and in a cold-blooded way told us where we stood and where we belonged. It was worthy of the "Texan thugs," I think they called them. We really got the business from him that day.

Things followed. The Canadian people felt it. Simon came to Toronto a week or so ago and also said something very cautiously, very carefully, but one understood what he was talking about. The big thing, of course, is resources.

Let me just say this much more. If there is one thing the United States is proud of it is the fact that alongside of her are 20 million Canadians who live in absolute peace and amity with them. They want the world to know that. They are more proud of that than they are of anything else. So we forget about the other aspect.

What is happening to our relationship? Little by little there is a word here and a phrase there. It is becoming cooler. Americans are upset over it. They regret it. I do not know the answer to it. No one seems to know the answer. What is happening to this deteriorating situation between our two countries? It did not come about as a result of oil. It did not come about as a result of water. They understood that. What is happening beyond that? You are in Washington. You have eyes. What do you see?

Mr. O'Hagan: That is a very large question, senator. First of all, I think the rise in our own self-awareness is part of it. It is almost inevitable in trying to express ourselves as a people and a nation that we have to differentiate ourselves from the United States and from American values, in many respects. Also, the United States is so close, and it is so large, so pre-eminent and dominant in so many areas. These have to be very personal views, but I think that because of the whole experience in Southeast Asia, Viet Nam, to use your word, the "deterioration" or the crisis that developed in American urban life with minority problems, the deterioration of

the cities, and what-not, Canadians have turned away from the United States as a model, as we have never done before. This has been said by many people. That coincides, whether we like the term or not, with our own new nationalism. Americans, who are very nationalistic people, as we all know, were not fully prepared for these developments on our side of the border. It is hard for them to conceive of a country whose national consciousness was as long developing, or as retarded, if you will, as ours. People are always struck by the fact that we took such a long time to produce our own flag, and all of these things. They are accustomed to a more popular, even a more jingoistic type of nationalism. It is not peculiar to the United States. We all know that a lot of great powers in the world, Great Britain, France, and so on, are highly nationalistic societies.

I do not know if this comes close to answering your question. It really relates to these things that have happened in the past decade. It is a maturing process that has occurred at home, while we see things, in so many ways, going sour in the United States. They are going less well than they have done in the past. We drew certain conclusions from this. We surely always wanted to try to prove and assure ourselves that these were areas in which we were better than the United States, in which the quality of life was better. In the past that has been a difficult case to make. It is less so now. As a result, you have this tremendous sort of "explosion," to use Mr. Reid's term, in cultural expression, in the literary arts, and so on, wherein people tend to discuss Canada almost inevitably in relation to the United States, whether it is Canadians defining their own personality, whether it is Canadian cultural and economic survival, or whatever it is. It began with Mr. Gordon's books, and so on. This whole period has seen this going on. The Americans, of course, for their part, have not really focussed very closely on it. Once they had, they had not quite known how to cope with it. Personally, I certainly know very many Americans who find our national attitudes and our conduct unexceptionable. They find everything we do rooted entirely in logic. There are others who are less persuaded.

Senator Croll: That is a very useful answer.

The Chairman: Yes, most helpful.

Mr. Reid: This is an evolutionary process. Yet, there are some very fundamental strengths and conditions which will not go away. In other words, we have a relationship which is probably the most potent in the world in terms of trade and inter-relationships of all sorts. It is our job, from the Canadian government side, to try to explain our contribution to this evolution to the Americans, in the hope that they will understand us better as we are reaching whatever form of nationalism finally suits us.

In that process there are two vignettes that I would like to mention to you which I think are important: one—is a pragmatic one; and the other is an emotional one. The pragmatic one is about a little booklet called the Battelle Survey, started by the Canadian Export Association about a year ago. It proves, fairly conclusively, by going into the United States and showing those parts of the United States which depend on exports to Canada for their livelihood, on their side of the border there is a great deal to be gained by a healthy economy on the Canadian side. This booklet has just gone out to the con-

sulates and we hope that this will form the basis for speeches, and so on, which will show that there is a good, pragmatic relationship throughout.

The second one is, with Ray Anderson in Spokane, last year, a lot of the current concerns were boiling up. We were there to participate at a Canada Show in which there were in attendance about 7,000 or 8,000 middle Americans from around Spokane. One would have to believe that there is some root that is strong, no matter what happens in the interim, in this Canada-U.S. relationship, because what we heard was the band of the Princess Patricia's Canadian Light Infantry in the finale playing "America the Beautiful," while 7,000 to 8,000 Americans sang it. Some of them were in tears. With that sort of instinctive friendship, admittedly close to the border, it seems to me there is a strength in the whole relationship which will not go away and upon which we can depend.

Senator Croll: What does Mr. Anderson have to say on this? This is a useful answer that we are getting here.

Mr. Anderson: For many years, while I was involved in the foreign service, the position that the United States took and Canada took internationally was very, very similar; domestically, there was not too much divergence. Over the past decade there had been a great change. There is a Canadian international position that is not like the U.S. position. We have assumed initiatives in many areas and have provided real leadership roles in international affairs, divergent and different from the United States. This is also happening domestically with the federal and provincial governments. They are setting priorities regarding lifestyle, way of life, what is important, concerns with the environment, concerns with developments as they occur in the provinces, and there is divergence. For the first time this apathy the United States had towards Canada, this sort of nice acceptance—I do not like to use the word "apathy" either and I do not like using an analogy, but it was like having a young brother who came along and you belonged in the family. As long as you did not raise any fuss, this was just great and hand-in-hand you went. But there are changes in Canada. There is a whole social structure that is taking place in Canada that is different from the social structure in the United States. There is a whole wave of immigration of Americans who have said, "We are not happy with the social fabric of the United States any longer, and some of the decisions that are being made, and we see in Canada an opportunity for a lifestyle that is more in tune with what we really believe. We see that Canadians are taking a leadership role." In my opinion, this is part of the reason for this seeming divergence. Yet, I must say that we must take advantage of the similarities and this enormous backlog of goodwill because we are going to need it as a foundation for explaining to the United States, in every one of the program areas that I am involved in, and the broader sense, that just because we take a little different path it does not mean that we are unfriendly or hostile or anti-American. The great strengths, as Patrick Reid mentioned earlier, are still basic as far as our relationship is concerned.

We must be careful because the interpretation in the United States could well be that we are being anti-American. This is one thing that we must avoid. Because of the scope of our relationship, whether in trade, eco-

conomic, or whatever, we need their understanding and their goodwill. This is, of course, what in fact the total information program is all about. It is projecting this new Canadian image, not hostile, not anti-American, but Canadian, friendly Canadian.

Mr. O'Hagan: Mr. Chairman, I just want to add one point, if I may. The perception of Canada by so many Americans has changed very markedly. We are not seen in the traditional recreational hinterland terms that once generally obtained. We are seen now as an increasingly privileged society and, also, thanks to resources, very rich and privileged. The pattern of emigration from the United States to Canada is a clear reflection of this. The Vietnam war, ugly and unfortunate as it was, had one modest benefit for Canada in that there were these people—I am not talking of draft evaders, deserters, but those who, out of conscience and concern for the direction their own society and country was taking, moved from the United States to Canada, often intending to get away from it for a while to think about things, and have a reflective period. Most of those people, I suspect, have stayed. The fact is that these are the kind of people who heretofore had never given a moment's thought to Canada. These were often intellectuals, university people, and so on. These people, distributed across the country, have had their communication feedback. I have run into lots of people who have relatives who have a son teaching at a university in Canada, or whatever. This provided the first insight, that these families at home ever had of Canada. There have been people now who have been writing about it. This is something quite unusual in itself—people writing in specialized and rather learned journals about Canada. They are not writing just about the Canadian-American relationship, so much, but about what is happening in Canada.

How all of this come out the other end is the question and the challenge that Mr. Anderson has referred to, because there is always lurking in the background the very real danger that we are seen as somewhat hostile and our acts are animated by mean spirit and selfishness, and that must be contested and countered.

Senator Laird: How are we at this moment on immigration applications, Mr. Anderson?

Mr. Anderson: I think at the moment the Seattle Consulate-General receives the second largest number of applications in the United States.

Senator Laird: Detroit is probably first.

Mr. Anderson: This may show my parochialism; I just know which is second. I am not sure which is first.

Mr. O'Hagan: It may be New York.

Mr. Anderson: I would suspect, New York.

Senator Connolly: How many do you handle every year?

Mr. Anderson: That is very difficult to answer. We have just been involved in the program now for two years. There has been a great change, of course, because of the immigration regulations, and we are not promoting in this area at all. We are responsive to requests from individuals, and it has been cut back substantially because of

the "selectivity" we are employing now in the selection of immigrants.

Senator Barrow: Mr. Chairman, there was a little excerpt in the *Washington Star-News*, April 20, 1975, which said:

Special Tie With Canada Has Ended

Canada has also moved against what some consider "U.S. cultural imperialism." The government has announced measures that could drive *Time* magazine and *Reader's Digest* out of Canada and stop Canadian firms from advertising on U.S. television stations which are viewed by large numbers of Canadians.

In view of the foregoing, how can we expect the media to support the efforts that you are making?

Mr. Reid: I will give you one very quick answer from a senior editor in Washington, when I was down there visiting a few weeks ago, and he said the general view among his fellows is that they were surprised that it took so long for *Time* and *Reader's Digest* to be brought into step, as it were, with the other periodicals that are American and are sold in Canada. It is not a universal view that this action was an outrageous step by Canada.

Senator Barrow: Would Mr. Anderson care to comment on the question of U.S. commercials?

Mr. Anderson: This is going to affect us because of the television stations in our area, and certainly it is not a happy thought to lose revenue as far as a television station is concerned. They have raised the question. They are not happy about it. But I think there is some basic understanding as to why the legislation and why the action of the Canadian government.

Senator Barrow: The reason I asked this is that we had some people here earlier in the week who said it was a very contentious point and it was objected to by a very small but very vocal and influential group in the Washington area.

Mr. Anderson: That is true. It is influential because there are some of the television stations that are tied to other media, newspapers, for example, and they are concerned and upset that Canada would take this view and pass this legislation. But what they haven't been doing is they haven't been using this against us in other areas. I can see their point. But it is also a sort of self-serving interest, if they were to promote this idea, and I must say to this point they really have not, although they raised objection, but it is a loss of revenue, and so most of the public see this as a vested interest complaining about a piece of legislation in another country.

The Chairman: I have had it put to me that the owners of one, at least, if not more, of these border stations in the United States have privately taken the position that, if we wish to change our tax laws to suit ourselves by prohibiting the deduction for business expense purposes of a Canadian company advertising on American stations, they can take no exception to that, in logic.

Mr. O'Hagan: Yes.

The Chairman: But, they take great exception to allowing or forcing our cable system to take their programs and, in effect, to steal them by clipping out the ads and substituting our own, and this is immoral. They drew a very sharp distinction between those two actions. I wondered if you had run into that distinction.

Mr. Anderson: That distinction has been made.

Senator Barrow: The regulatory authorities in Canada are insisting that it be done.

The Chairman: The CRTC is forcing that at the moment. In fairness, the CRTC has an argument. They are saying the American advertiser is paying 110 per cent in the American market in his rates and is getting 110 per cent when he sells because of that overflow, so that you can not argue that there is a business justification in clipping those. But I have heard, Senator Barrow, sharp distinctions drawn between the two different actions, and I wonder if Mr. O'Hagan and Mr. Reid would also like to comment on that.

Mr. O'Hagan: I think there is no question that it poses a problem. It is not a big problem yet, in the public domain. Obviously, the people whose interests are affected are actively concerned and they are influential and vocal, as you have suggested. In the abstract sense, in the area of ideas, this kind of action, for example, in respect of *Reader's Digest* and *Time* magazine, and even people holding no brief for either of these publications, have wanted to look at the question and wanted more information from us simply because of the implications for the free flow of information, the First Amendment, all of which, of course, are very dear to the American heart, and particularly in the wake of the Watergate affair. Anything that smacks of abridgement in this area, even though they are in a separate and sovereign state, that involve American interest, give people cause for thought. The *New York Times* has commented on it, for example.

In the case of *Time* and *Reader's Digest*, which is perhaps slightly more complicated, there has been some confusion or at least misapprehension of what Canadian policy objectives were. Driving *Time* and *Reader's Digest* out of Canada is a shorthand and an inaccurate form of words too often used in some quarters to describe what is happening. Obviously, *Time* and *Reader's Digest* are not being excluded from Canada or the Canadian market which they have enjoyed with Canadian official accommodation and blessing for a very long time. But there have been statements emanating from Canada which have given rise to this misreading of what in fact is going on, the idea that the effect of the policy is to cause the discontinuation of what purports to be Canadian magazines, in the case of *Time* and *Reader's Digest* but not, of course, the magazines themselves. There is some work to be done in that area on the part of us all in explaining those policies as they evolve.

Senator Barrow: It may be difficult in connection with the deletion of commercials. I understand from newspaper reports that some of the stations have hired electronic experts to see if a curtain cannot be drawn over the television signals as between Canada and the United States.

The Chairman: I am told they are very close to success in that area. They think they can technologically accomplish that. Then Mr. Juneau will probably hear from some Canadians.

Mr. Reid: That will resolve the matter.

May I make one aside to Senator Connolly? When you ask about the oil rig companies, and so on—

Senator Connolly: That was an example only.

Mr. Reid: Mr. O'Hagan explained what he was doing in Washington. There is a lot going on from the consulates in the hinterland as well, which starts to encompass these audiences. In Minneapolis, for example, on May 6 and 7 there was a meeting on energy put on by the CIA of Winnipeg and a companion group in Minneapolis at which Mr. McKinney of the Embassy spoke. There are many occasions like that. Hopefully some of these key audiences that are not in the capital but out in the states are being reached, since we have a network of consulates all working in the information field and provided with material from the Embassy or Ottawa that permit them to do so.

Senator Cameron: What kind of reaction has there been from the Arctic gas development on the Mackenzie Valley pipeline in the United States?

Mr. O'Hagan: That is being debated right now. Presentations are being made to the Federal Power Commission at this very moment.

Senator Cameron: Has there been much discussion about it in the media?

Mr. O'Hagan: There is now. It has been intermittent. There has been a good deal of discussion about it in the trade press, the oil industry press. It is very important and there are elements in the Congress very well informed on this. One of the things emerging on that question, in the context of the Mackenzie Valley and the Alaska overland and down the coast route, of course, one of the arguments that El Paso is making expressly and implicitly is that Canada is not entirely to be relied upon in the sense that it is not more prudent to be entirely in control of our own delivery system rather than trust to the caprices of a government that might, in days ahead, choose to act arbitrarily in some way or other? Together with references to the prolonged reviews that would need to be made in respect of native rights, the environment as well as the provincial question, the El Paso argument seems to be founded on these cornerstones, quite apart from other considerations. In terms of the Canadian dimension they seem to be systematically calling into question the desirability of entertaining the idea of a partial Canadian route.

The Chairman: My recollection is that not only El Paso has made these observations—in El Paso's case it is self-serving for them to do so—but the Government of Oregon, in an official representation to the Federal Power Commission has made the same point. Am I correct on that, Mr. Anderson?

Mr. Anderson: You are correct.

The Chairman: That distressed me.

Senator Croll: Is it not a potent point? To sit on the other side, to me, that would appear as being very potent.

The Chairman: The point I make is that a state government in the United States, probably without a brief between the two systems—they just want gas—has taken this same position in addition to the company itself.

Mr. Anderson: The State of Alaska also has because of what they consider tremendous losses of revenue. They have done a projection of how much money it will mean if they lose the pipeline across the land route.

The Chairman: True. But, there again, they wanted to cross Alaska because it is good for Alaska.

Mr. Anderson: Although Washington did not present a brief, the states of Washington and Oregon have been greatly dependent upon availability of natural gas from Canada. Our record in this area bears some scrutiny if we were to look at it from the American point of view. The price of natural gas has been raised unilaterally so that the price they are paying for natural gas is substantially higher than they would like to pay.

The second thing is the availability of supply. I think it is the key thing. Price is an issue, but is not of major consequence. It is availability of supply. When there were problems in British Columbia about the availability of natural gas this past year, the announcement and pronouncement was made that the only gas that could be expected in Oregon and in Washington was going to be surplus to our full 100 per cent domestic requirement, and then they might get a little gas. This was said to two states whose industries and homes have been built on and supplied with Canadian natural gas. In the meantime, their reaction to the possibility of a cut-off of a large percentage of what they were using was a reflection from Oregon that they could not be very secure in supplies from Canada, and, therefore, they felt that at this point their whole industrial setup was predicated on the availability of gas and if they had it from Alaska it was going to be sure.

The Chairman: Sorry, Senator Cameron. I didn't mean to interrupt to that extent. Was that your question?

Senator Cameron: Yes.

The Chairman: Thank you.

Senator Connolly: Mr. Chairman, I wonder if these gentlemen could give us some information about the comparative work in this field that is done by other countries in the United States. I just forget what the order on the scale is, other than Canada, as to who does the most business, the most trading with the United States. It is probably Japan, the U.K., and the Common Market. What kind of information services are run by these other international units?

Mr. Reid: May I start the answer to that by telling you that we have consultative meetings in public affairs meetings every year with the British? Because I was coming here I tried very hard recently to ferret out from them just how much money they put into their information program in the United States. I was not successful at that time. However, I have been promised in London, next week, a fuller breakdown of what they are doing.

It is quite astoundingly more than we do. I would base this on the fact that on a world-wide basis the information arm of the British government operating abroad spends 50 million pounds a year, \$120 million. We spend \$3.5 million on a world-wide basis. The most important market of the British is the United States, and that is where they spend most of their money. As I say, I cannot tell you precisely how much. It is a great deal more than the \$900,000-odd that we spend. They have in New York a highly developed information headquarters with about 75 people in it. Our total in the United States is 29 on both information and culture. So the competition is pretty strong. I would suspect that the Japanese are more or less in the same pattern as the British.

Senator Connolly: At the same level, do you think.

Mr. Reid: The detail gets very difficult to track down because there are many Japanese trade centres, for example, which is another source of money for straightforward information promotion. Japan also has an enormous endowment fund for academic relations and studies everywhere in the world.

Senator Cameron: Japanese trade centres are very effective in this country.

Mr. Reid: We had a similar discussion with the Germans last year. We were comparing notes, so to speak. They presented us with a United States Information Service Study of the German public relations activities abroad. This says something about the U.S. capacity for gathering information. It showed that \$370 million is spent by the Federal Republic of Germany on public information and cultural programming outside of Germany. This includes, of course, such things as the Goethe Institute.

Senator Connolly: Is there anything done in the U.S. by the Common Market, as such, in this field?

Mr. Anderson: Yes, there is a Common Market information office in New York. Its activities are mainly responsive.

Mr. Reid: There will be one here shortly.

Mr. O'Hagan: They have a sophisticated operation in Washington.

Senator Connolly: That is all added, of course, to the national contribution that is made by the members of the Community.

The Chairman: Senator Connolly, you have asked a most important question. I had a note to ask it myself if none of the other senators did. I wonder, if Mr. Reid finds more information in this area in his discussions in England next week, if he could let us have what information he is able to gain there. I am sure I reflect your view, Senator Connolly, in saying that in a nation where we do a two-way trade totalling \$40 billion a year, and where our relationships are deteriorating, rather than improving, not because of anyone's fault but the pressure of events, maybe we should be looking at much higher budget figures.

Senator Connolly: Who is number two on the trade list, after Canada, with the United States; both exporting and importing?

Mr. Reid: Japan, or the European Common Market.

The Chairman: If you take the Community as a whole.

Senator Connolly: These figures are readily available and we should have them at our fingertips, but actually this morning I have not. Are you conscious of the impact of the Japanese, the U.K., and of the West German work in the United States? Do you see it as a sort of competitive factor in the work that you do on behalf of Canada?

Mr. O'Hagan: Just to echo Mr. Reid's comments and the chairman's observations, we have looked at the British operation from time to time because it is so sophisticated and comparatively large. It has been in place, don't forget, for a very long time.

Senator Connolly: They are old hands.

Mr. O'Hagan: They are old hands and, after all, a power that has been doing this kind of thing around the world for a very long time. It acquired, of course, a fresh impetus in the Second World War, and it has been building since then. One is aware that the British have been very skillful, very systematic and, I think, in the main very successful at presenting themselves in the United States, taking advantage of a sort of kinship and other affinity factors, and so on. They have given tremendous emphasis in recent years to the trade side, to trade publicity; in other words, export markets, as distinct from cultural emphasis, although that is always present in their national information effort.

The Japanese and Germans have had a different situation since World War II, which is a factor that still animates part of their effort to rebuild and re-order their broad relationships. This is why they are so very active in the cultural and educational field, spending very large amounts of money setting up very large foundations to administer study programs on Japan-U.S. relationships, and so on.

On the practical side of things, reference has been made to the Battelle Survey. The Japanese—and I have been conscious of this at the working level—are very quick, or the Japan-American Trade Association, or whatever—I am less conscious of the Japanese government official apparatus in this way than I am of their affiliated organizations with the United States—when there is any kind of protectionist move, the Japanese, or those acting on behalf of Japan, are very quick off the mark with their statistics, on what the implications are in terms of a region if there should be any curtailment of Japanese exports into the United States. They are very responsive and without looking into it, seem to be very well geared.

Senator Connolly: Have we the facilities, as the Japanese have, to respond to emerging policy decisions as they come out of Congress?

Mr. O'Hagan: The Battelle Survey that Mr. Reid has alluded to—and he may want to say a further word about that—had this kind of thing very much in mind. I think we are reasonably well positioned to act.

Senator Connolly: Perhaps you had better tell us about the Battelle Survey. This is the first I have heard of it.

Mr. Reid: That is just one facet and it has been a long time in coming out. It was a study done in the United

States over a period of time. We are not equipped as well as the Japanese are to respond in the United States in the way Mr. O'Hagan was describing. He was describing with some envy, I thought, in his voice about the extent to which the Japanese can do this. You have to bear in mind that, in the latter sixties when there was a lot of government stringency, the total vote for information on a world-wide basis was something like \$750,000 and had been cut back. So we are moving up again. As a newcomer I would quite honestly proclaim that we have a considerable way to go and those of us who are involved in that particular part of the operation would be delighted to professionalize the whole operation to that additional extent. But we do not have the resources.

Senator Connolly: Can I just stop you there? You used a very good word. You said, "We are not in a position to professionalize," and it seems to me it is the professionalized approach, the sophisticated approach, that has to be made in a situation like that.

Let me give you an example. In August 1972, when the restrictive economic measures were taken by the former President and his Secretary of the Treasury, whose name is well known, one of our senators made a special mission down to the United States to see one of their senators. This was out of the goodness of his heart. He happened to be a man who was not a member of the party that was in power, but he thought these attempts that were being made to restrict the trade between Canada and the United States very damaging to Canada and he went to see his friend in the U.S. Senate. He got a wonderful reception. For all I know, some good came out of it. It seemed to me to be a pinprick. It seemed to me that a country that has as much at stake as we have with our trade with the United States should not have to rely on pinpricks to meet a crisis like that. It must be sophisticated; it must be professionalized; it must be on a broad basis. At the same time, it must be detailed enough to show Americans affected in certain areas that it is disadvantageous for this kind of thing to develop. This, I think, means very quick work with lots of information.

Mr. Reid: Senator Connolly, I would like to make a very clear distinction here. I have been in my post for four or five months and therefore I am viewing this thing in as hard-nosed a way as I can. The first thing is that there is a lot of professionalism right now. You see some of it here. The second thing is that the foreign service—and I am not a member of the foreign service so I can say this with absolute liberty—contains people who are very gifted in this field and work very, very hard at it too. The Department of External Affairs is totally aware of the need to make more progress and, in fact, commenced an operation called "A New Look in Information Abroad." The fact that there are 150 per cent more people operating in the United States in information this year than there were last year shows that a great effort is being made. We have the troops on the ground to a very large extent, and what we really need now is an infusion of resource money which will allow us to increase the professionalism we have underway. The constraints that come along are, of course, that every year the Department of External Affairs has to find such infusion from within its own resources, and whatever increment is contemplated is in competition

with the building of new chancelries, or whatever else has to be done in a department involved in external affairs these days. If we are going to have an increase in information resources, it has to be within the percentage that is allowed by Treasury Board to operating departments each year.

Senator Croll: You said you got a pretty good increase last year.

Mr. Reid: In manpower. We are most thankful for it.

Senator Croll: That is what you are talking about?

Mr. Reid: In those terms. But in terms of funds, for example, we have on a world-wide basis right now \$3.5 million, or thereabouts. We had an increase of \$240,000 for the '75-76 fiscal year. If you take inflation into account, it probably puts us back at a lesser figure than we were before.

Senator Croll: Let us talk about your professionalism for one more minute. I do not doubt your professionalism. When the beef question arose four or five months ago in the United States and the matter came before Congress in some form or another, there seemed to be a total lack of information from the Canadian point of view. They were having a field day without anyone at all presenting our side of the story. The result was that I think we were heard. I do not know whether it is the business of the Agriculture Department to brief the people in Congress. I think that it is your business to see that it gets there. I felt, wrongly perhaps, the job was not done in that case. Now, you correct me.

Mr. O'Hagan: I do not think I can correct you, senator. First of all, to get the thing in proportion, it loomed much larger in Canada than in the United States, obviously; it was a much larger and more conspicuous issue here.

Senator Croll: Yes.

Mr. O'Hagan: The management of that issue was left to official channels, as it were. There was no real effort made to mount the kind of public information program you suggest to explain the Canadian point of view on this. Like you, I am inclined to think that we should have. We were probably remiss in that. Maybe in retrospect a lot of us would have tackled it differently. I cannot fully explain to you why it happened that way. I think there was a feeling that the matter was better left to resolution by other means; that time was important in terms of easing the thing and working some of the tension out of it. Do not forget that it occurred in a highly political atmosphere on both sides of the border. It was election time, and so on. There was a feeling, and maybe an intuitive judgment which was a correct one, that rather than provoke this thing it might be better just to leave it to be worked on in a quieter way.

It is an extremely complicated question, as you are aware. But you spoke of the *New York Times*. Coincident with this issue being very much in the forefront, both as a point of friction between the two governments and as a public question in Canada, and more so in Canada than in the United States, the Department of External Affairs had a group of senior editors here. One of the appointments they had was with the Minister of Industry, Trade

and Commerce, the Honourable Mr. Gillespie. He came with one of his senior advisers on the international trade side, Mr. Burns. The whole discussion period was taken up with the beef issue. Fortunately, the deputy foreign editor for the *New York Times* was one of the people there, and I am quite content that whatever memorandum or report he may have given to his editorial page colleagues resulted in a very understanding expression of the Canadian position in this matter. Nonetheless, the fact is that beef was one instance where we did not act. It is a good question and perhaps it is the kind of thing that we professionally might review at some stage and ask, "Should we have acted? Ought we to have conducted ourselves differently in that instance? What would have been the implications?"

Senator Connolly: Let me interject something here. I do not fault the information people in the Canadian Embassy in Washington for failing, if they did fail. What I fault is the flow of information from the people concerned here in the beef situation. You cannot be expected to know about foreign investment review. You cannot be expected to know all about energy. You cannot be expected to know all about beef, either. This committee can perhaps point this out. I think the people who saw this beef crisis, or any of these other crises developing, should be talking to External Affairs and saying, "This is coming." What we have to do in this committee is support the kind of work that you people are doing, because we are concerned about the biggest facet of foreign trade in which Canada is involved. It is more than simply your judgment. After all, you are a co-ordinating agency. The real information comes from the Department of Finance or the Department of Energy, Mines and Resources, or the Department of Agriculture. Perhaps the Department of Industry, Trade and Commerce is also a co-ordinating agency as to its external affairs. Do you agree?

Senator Croll: Certainly.

Senator Connolly: This is the place, and we have to put the focus. Perhaps when we come to making our report, we should say something about a particular issue like this. You can help us by giving it to us.

Mr. Reid: There is, of course, some work like that going on, Senator Connolly.

Senator Connolly: I am sure.

Mr. Reid: Again, it is part of the build-up that we are as anxious to make progress on as you are.

Senator Connolly: This is why I asked the question: Can you act in an emergency? You can only act in an emergency if you have the information. You have to be alerted to it.

Senator Croll: Following up what Senator Connolly has to say, you are getting some knowledge that wasn't born yesterday. You know what you are talking about. Anyone at all in Washington could have seen the possibility of an issue here; Never mind whether it will focus or not. In my own business I would have got on the telephone and said, "O'Hagan, get down here to Ottawa, or send a couple of people down here so we can tell you all about this thing, and whatever blows you have answers ready." That is what I would have done in the ordinary course of

business. If you had gotten down here and talked to the Honourable Mr. Whelan and Mr. Williams, and they had said, "We don't want you to say a thing about it," you could have said, "Never mind, give us the information. We will not say anything until we tell you we are going to say it. Give us the information so we can know what it is." That is what we are talking about. It seems normal for us. We do not suggest you do it in Japan. It may be more difficult What Senator Connolly says is absolutely true. That is the kind of thing that will help us out with the Americans and put us in proper light.

The Chairman: I have a question for the witness myself that is very close, I think, to the point you are trying to make. Are they given proper briefings in advance of government information being formed or public statements being made? I am going to use one specific example right now, because I know something of the subject. I would like to ask these gentlemen to what extent they have been briefed on the grave seriousness of the gas supply system in Canada two and three years from now, and not just the existing shortfall of delivery to the United States under current contract, but the probability of other contracts being shortfalled. This is clear to anybody who has studied the subject. It is not something we want to talk about publicly yet. It is probably going to be the biggest single irritant between Canada and the United States. How far down the road are you in being briefed on it at the moment?

Mr. Reid: I think the briefing is going on.

Senator Carter: It should not be at Mr. Anderson's level. Not that, in my view he has a low level.

Mr. O'Hagan: Speaking for myself, first of all, I have clearly some general knowledge. There has been some documentation—NEB reports, projections, and so on. All of these things we are aware of. As to in-depth preparation, a sort of orchestrated consideration in anticipation of these problems, that process, as far as I am concerned, has not yet begun.

Mr. Anderson: I would echo exactly what Mr. O'Hagan has said. We are aware of where we are at this moment. As far as projections as to what is going to happen to the availability of gas supplies to a major important area like the Pacific Northwest, I am not briefed. I cannot sit down with someone and say this is exactly what is going to happen as far as the supply of natural gas over the next while. I am not briefed in depth on this.

The Chairman: It is my suggestion that you should be laying the groundwork right now, for possibly some bad news in the future.

Mr. Reid: Right now the Department of External Affairs is giving careful consideration to the public affairs aspects as policy is being developed. That I know.

Mr. O'Hagan: On the point of anticipation, I must say once again—and I am not going to point to one modest publication as a support for all this—but these energy papers are intended to convey the feeling to our American partners, customers, friends, and Congress that the sun will not shine, in the future, as brightly as it did sort of the day after tomorrow as it did yesterday. The implication is that this is not an impermanent kind of arrangement. The outlook is not rosy in this area. So that people

are not misled in any way, this is not an episodic situation; it is likely to continue.

The Chairman: It could be well cured when we get out of gas lines?

Mr. Reid: We have more to do in this area. You are absolutely right. We have to depend in the Department of External Affairs, of course, on the input from other departments. This sometimes takes time for a variety of reasons that are perhaps understandable from the point of view of those departments.

Mr. O'Hagan: Also, as well, there needs to be a consciousness.

The Chairman: We must conclude fairly soon, so could I come back for a moment, Senator Connolly, to the subject you raised. I must say I find some of these figures quite startling. Possibly we should get more detailed figures from the witnesses subsequently by mail, rather than use inaccurate figures in our report.

Senator Connolly: Yes. Mr. Reid could come back.

The Chairman: As I jotted down some of these figures, the British spend approximately \$120 million a year in this area.

Mr. Reid: In information.

The Chairman: And approximately a third of that goes to—

Mr. Reid: That is what I am not sure about.

The Chairman: A large percentage goes to the United States, of which a third would be \$40 million. It is said that West Germany spends \$370 million, of which they think a large percentage goes to the United States. It may well be \$100 million. Against this we are competing with \$900,000. It would be different if we had \$1 million and they had \$3 million. But when you start looking at figures of 100 to one, they are even more startling. I wonder if we should not take a pretty hard look at this aspect.

Mr. Reid: There are even more startling figures floating around. The British, in their cultural relations, including academic relations, have another 50 million pounds devoted to such activities in the United States and elsewhere. We have at the moment about \$4.5 million. There is a balance somewhere, of course, because these countries are offshore. There is a lot of cultural interchange that goes on between Canada and the United States in a commercial sense. There is a balancing factor there. Nonetheless, the disparity is remarkable.

Senator Connolly: We do not have to spend dollar-for-dollar with anybody because of the "special relationship." I use that phrase because of the essential interlinks between commercial activity in the United States and Canada. Their production is dependent upon some of our production, and vice versa. There are things that you do not buy that way. They are done in the private sector.

The Chairman: Senator Connolly, I quite agree with you that we do not have to go dollar-for-dollar with the Germans and British, but these are still huge differences.

Senator Connolly: Yes.

The Chairman: As we move away from the special relationship to the third option relationship, should we possibly not be accompanying that with a much more rapid escalation than we have seen in this area that we are talking about? If other members of the committee agree, I would like to ask Mrs. Seaborn to pursue this particular area with Mr. Reid and the department so that we can give thought in the next week or two as to whether or not we should have some further evidence in this particular area, with more accurate figures.

Senator Croll: Better than that: how we should include it in our recommendation. I do not think we can get any more information from them.

Mr. Reid: In all fairness, there is another aspect. If the British have included the cost of their manpower, then we should include the cost of our manpower in operations in the United States.

The Chairman: Yes, so we have apples and apples, and not apples and oranges. That is why I would like clarification and some hard figures where you are dealing with the same things. I think that would be most useful to us.

Senator Croll: How do the provincial representatives do in cooperation with your people? Some of the provinces have representatives. I know they have one in Seattle.

Mr. O'Hagan: New York, Chicago.

Senator Croll: Do they talk to you and do you talk to them? Is there any cooperation? Do some of them go their own way, some of them cross you, some of them suggest to you that you are the senior body, "What do you think we ought to do about this?" and this sort of thing?

Mr. Anderson: I will give you a little background based on relationships both in Seattle and the previous posting that I had. I was in Los Angeles. There we had the Province of Alberta representative, the Province of British Columbia representative, who was located in San Francisco but for trade purposes covered Los Angeles. Although this is some time ago, I understand that it is still true that the cooperation is good. Invariably, these are very small, oftentimes one-man operations. In many instances they involve industrial development on behalf of the province. They are also involved in trade missions and direct relationships with their home departments. The cooperation in Los Angeles and Boston that I received as Senior Trade Commissioner in both those areas was just great. But it was a matter of working out a personal relationship that would work, so that there were things that we could do for them that they could not do on their own, and being cooperative with them, seeing what their objectives were, and making sure that there was a fit. When difficulties arose, invariably it was cooperative and treated in many ways like men on our team, a part of the total operation, although physically and administratively they were separate and apart.

Senator Connolly: I was not a member of the delegation, but we recently had a meeting of the Canada-U.S. Interparliamentary Group. I think these are very useful exercises. We get people of the Congress in both houses

understanding a good deal more about Canadian problems and, by the same token, a great many members of both our houses understanding more about American attitudes. When the Ambassador was here, he expressed some reluctance, not to interfere so much as to appear to be part of the many lobbies that are before the U.S. Congress. So far as information is concerned, are you inhibited in your approach to Congress and the members of Congress? Do you circulate material to them the way the American Ambassador here and other embassies do? It is not on a regular basis, but it is on a frequent basis.

Mr. O'Hagan: Yes.

Senator Connolly: We get these brochures. Some of them are very interesting and useful. How far do you go?

Mr. O'Hagan: We are doing more of this, Senator Connolly.

Senator Connolly: What do you mean by "more"?

Mr. O'Hagan: We are doing more than we have done in the past. Five years ago, or three years ago from an information standpoint virtually nothing on an organized basis was ever done for members of the Congress.

The Chairman: Only with the Executive.

Mr. O'Hagan: Only with the Executive. I qualify this, I said on an organized, disseminative basis. Clearly, Ambassadors and officers of the Embassy have had relationships with individual members of the Congress and they have talked quietly in meetings over lunch and have discussed issues, shared views, and so on. Historically the Canadian approach to the Congress—and this was reflected in the Ambassador's observations here—has been one of caution. The Ambassador is accredited to the President of the United States and through him to the Administration, and we have been very correct about our channels generally. These have been, for the most part, through the Department of State. As I said, in recent times, the last two years, we have begun to take a comparatively more activist role in relation to the Congress in sending them materials—for example, a mass circulation of these things to the Congress—

Senator Connolly: You are talking now of *Canada Report*.

Mr. O'Hagan: I am talking of *Canada Report*—and to make sure that these find their way into every congressional office.

Senator Croll: That was not the question, was it?

Senator Connolly: It is part of it. Can I stop you right there? The members of the Congress in both houses have a fairly large staff. Have you any lead at all as to whether material like that is used?

Mr. O'Hagan: I think we have some evidence, yes. But, it really is a little difficult for us to monitor and track the results of these efforts. One does not know whether some people have had their hands stayed or have elected not to make speeches simply because of something that has been said to them or that they have read.

Senator Connolly: Would they have people on the staff, for example, who would read the matter on foreign investment review and say, "Look, don't make a speech about this. Don't get up and say that Canada doesn't need foreign money. I have a paper here. If you ever have to speak about this, I have some material"? Does that kind of thing happen?

Mr. O'Hagan: I am inclined to believe that it does, but I cannot give you any hard evidence. But in the absence of more authoritative comment in these areas, I think that it does happen. As you say, these are extraordinarily busy offices, but they do have fairly large staffs and they have a lot of specialists on their staffs. If one sends out a serious paper and it is under the note of an ambassador, or some other appropriate person, it may tend to get looked at. You never know when somebody may not have made the speech as you suggested he might otherwise have made, as a result of being briefed by one of his staff.

In the interests of accuracy, I should add one thing about the congressional relations dimension. We are conducting a limited congressional relations program. We have a very able officer at the embassy who has, among his responsibilities, contact and liaison with the Congress. But it is a limited program. As I say, our approach to the Congress—and you sensed this clearly from what the Ambassador had to say—is still such that we are feeling our way into it. This is as a result of an historic restraint that we have felt.

The Chairman: Would it be fair to say that you are feeling your way more deliberately now because of the swing of the pendulum back to the Congress, somewhat, in the power structure?

Mr. O'Hagan: We would be careful, in any event. But the fact that there is now, as the term goes, an imperial Congress, makes it perhaps, on the one hand, all the more desirable that we have all sorts of lines into the Congress. Equally, with the Congress feeling its sense of power and authority, that makes it all the more desirable that we proceed with discretion.

Senator Connolly: It is one thing for a congressman to make a speech; it is another thing for a cabinet minister to make a speech.

Mr. O'Hagan: That is correct. We have to be extremely careful in terms of not antagonizing the administration.

Senator Croll: What about the personal relationship? Is there an entertainment fund that is adequate?

Mr. O'Hagan: Yes.

Senator Croll: You call up Congressman Carter and say, "Could I come over and talk to you? Could I take you to lunch?"

Mr. O'Hagan: This is done.

Senator Croll: Is it made available so you can call the private secretary and take him to lunch? Is it ample?

Mr. O'Hagan: I think so.

Senator Connolly: Do the British do this?

Mr. Anderson: Yes. There are representational funds available and you have a priority of getting to know your area, the cabinet and officers in the state governments; and the same is true in Washington. They are at different levels. There is an accessibility and you utilize it. I may say it is a very high priority.

Senator Connolly: How good are the British, Germans and Japanese on this?

Mr. O'Hagan: The British are very good. They have an officer in Washington.

Senator Croll: I am talking about congressional relations.

Mr. O'Hagan: I would say, generally very good.

Senator Connolly: Do they press it as a priority?

Mr. O'Hagan: They work at it very systematically. They do not proclaim it, but they do it—the Israelis, as well, for very compelling reasons, among others.

Mr. Reid: I think we have some depth in this, too, through the consulates throughout the United States where there is a means and quite an activity of making contact at that level with congressmen in their home districts.

Senator Croll: Under what circumstances could anyone complain about you, Dick O'Hagan, a representative of Canada, walking up and talking to a congressman about anything—I do not care what it is—on the subject on which he is hottest on?

Mr. O'Hagan: The restraint does not come from the Americans, really. It is a self-imposed restraint. We have proceeded very cautiously on this. This very kind of discussion, I can assure you, has occurred in successive Ambassadors' offices more than once in Washington. I have friends in the Congress, and generally they are extremely forthcoming. Even the Department of State from time to time will say to us, "Why don't you go to the Congress direct? Don't go through us. You will do better if you go to them direct on a given question." The separation of powers is very real and the Congress authority is very real. As I have said, it is a self-imposed restraint in large part, and it arises from the feeling that at some point there might seem to be some overstepping of the bounds. I do not know when that last occurred in the Congress.

Senator Connolly: You do live in an atmosphere and climate of lobbying, do you not?

Mr. O'Hagan: Absolutely, yes.

Senator Connolly: Everybody is at it.

Mr. O'Hagan: Yes.

Senator Carter: We receive a lot of material from the various embassies. You say you are sending out material as well. When I get the material I am inclined to think it is a little propaganda.

Mr. O'Hagan: It is a perfectly normal reaction. It is one of the reasons at the Embassy we feel that one must be measured in putting out this material. First of all, you do not put it out unless it clearly speaks to a point or an

issue, especially policy-related material. It takes time to build up confidence in the credibility, the balance with which you present your case. Certainly you are putting the Canadian case. If people come to realize that it is carefully and thoughtfully prepared, as these energy papers are—and goodness knows, there was enough time and effort by a host of people that went into them—I think that the serious people who receive this kind of material recognize that it is serious. It is special pleading, but it is a good special pleading that earns its own reward and respect.

Senator Carter: I received an article that dealt with the beef war between Canada and United States. It was the most impartial article that I have seen on the subject. It started way back and it brought everything up to date and gave both sides of the question. If I get that kind of material, I am much more impressed than if I get it from the Honourable Mr. Whelan, Minister of Agriculture. How much use do you make of that type of device? Do you have Canadian magazines. Every two weeks The National Science Council sends out a booklet of press clipping from all the newspapers related to scientific research. You do get both sides of the question. It does not have the departmental stamp on it. I think that type of material is much more impressive.

Mr. O'Hagan: We try to incorporate many of the things that you are suggesting at the Embassy level. There are other materials which come out of the Department of External Affairs headquarters. But at the Embassy level we do try to effectively employ those publications which we now issue, such as our general interest magazine, the special policy reports, and then, of course, the International Perspectives from Ottawa to reinforce and supplement.

We do not have an extensive publications program in the sense that some countries have. If you wanted to dig into this you would see that the U.S. Information Agency puts out a range of publications that are highly professional; they are almost startling in their quality and depth. They take up special issues on economic questions, questions of ideology, matters of general interest—everything imaginable. I think there are some 13 or 14 highly impressive publications that come out of the U.S. Information Agency in Washington.

At the moment I would say we were doing moderately well in terms of getting out the kind of thing you are talking about. I would suggest that when the personnel increments that Mr. Reid referred to are effected next autumn we will be positioned to selectively do rather more. I hope that by this time next year we will be able to give you a better report.

Mr. Reid: We do send out material to highly specialized audiences. *The Arts in Canada*, for example, is sent out to a fairly restricted list in the United States in the hope that they will eventually subscribe to those magazines. There are a number of magazines from the private sector in Canada that we use to get a point across.

Senator Carter: Every time President Ford or Henry Kissinger speaks, the American embassy here sends out a verbatim report. Do you do something like that when our Prime Minister makes a speech?

Mr. O'Hagan: We do. We are a little leery of speeches. Frankly, it is one thing for the President of the United States to have his words widely disseminated in the world because very often what he says matters to a great many people in the world, but, with all due respect to our ministers and our head of government, this is not always the case where Canada is concerned. You have to be selective in what you put out, and the form in which it is put out, to try and gradually induce people to understand that what the Canadian Prime Minister and his ministers say is important. But as a matter of practice we do put out speeches. I think that our technical approach to the distribution of these things has to be somewhat different from that employed by the United States.

The Chairman: May I interject with two questions? After that, if other senators do not have further questions, we might consider adjourning.

Coming back to this question of relations with the Congress, as opposed to the Executive, how many people do you have on the Embassy staff in your area and other areas whose total function is just to liaise with those 400 or 500 congressmen? Would you say that work is at the same level of intensity as that of the British, for instance?

Mr. O'Hagan: I do not have the impression that ours are of the same intensity as that of the British.

The Chairman: Do we have people full time on that?

Mr. O'Hagan: We have one officer part time, who carries this as one of his duties. He has other important duties as well. Once again, one must bear in mind that there are other people throughout the embassy, and not the least of all the Ambassador, himself, who do set up relationships.

The Chairman: Yes. Everyone does what he can. You do not have a special part of the staff aimed at that one thing.

Mr. O'Hagan: No.

The Chairman: My other question relates to something slightly different from what we were discussing today. We have spent some time, Mr. Anderson, on the question of direct provincial-state relations circumventing, or outside the ambit of, the two federal authorities. We have been surprised to find quite an extensive array of agreements and protocols in minor arrangements between provinces and states. There is one American study indicating that there are 750-odd protocols and agreements of one sort or another between states and provinces that had been concluded without reference to the two federal governments. Agreements affecting British Columbia in recent years have covered matters of almost national significance—tankers, gas, the Skagit, the Columbia, and so on. I wondered if the actions of the Government of British Columbia, the Premier's meeting with Governor Evans, policy statements made by the provincial government, and so on, have involved you as the representative of federal authority.

Mr. Anderson: Yes, Mr. Chairman, there have been fairly extensive relations. These have developed rapidly with the new government in British Columbia. Some of the protocols and arrangements concluded in the past with the Province of British Columbia have concerned

Seattle City Light, for example, and the High Ross Dam, and Skagit River question. Although Premier Barrett and, as I mentioned, members of his cabinet are personally invited to come into the States of Washington and/or Oregon, I do not think there has been an instance of the Premier's arriving without prior notification or a request for some assistance. This is not an area which we are involved in promoting. I am not promoting the meetings between the Governor and the Premier.

The Chairman: I did not mean that.

Mr. Anderson: I wanted to make that clear, invariably I have been advised by the Premier, himself, or a member of his staff, and in some instances have been asked for recommendations about an appropriate platform, and a request for the arrangement of an appropriate platform, when he comes to speak. This invariably is to let people in Washington, the business community and those people who are using the products of British Columbia, know what is happening in British Columbia. In many ways this has been a very useful exercise. There have been two instances since I have been in Seattle where there have been requests for intergovernmental meetings. The premier arrives with a number of his cabinet hoping to make arrangements to meet with their opposite numbers in the United States. We have been involved, and invariably I have been present at the meetings and during the conversations that have taken place.

The Chairman: I take it from your answer that you would say that these exchanges have been conducted on a satisfactory basis between the contacts of two federal states living side by side.

Mr. Anderson: I would say, yes.

The Chairman: Are there any other questions?

Senator Connolly: A lot of them, but I do not think we have time.

The Chairman: I think we will have to adjourn. I am sure you would want me to say on your behalf that this has been one of the most stimulating and interesting mornings of evidence before the committee. We are very indebted to you, Mr. Reid, for arranging this evidence, for making it possible for Mr. O'Hagan to come all the way from Washington and Mr. Anderson from Seattle. It has been a most stimulating, interesting and fruitful morning.

Honourable senators, just before we adjourn, it has been brought to my attention that we should have a resolution that, this meeting being *in camera*, the transcript can be edited by any member before it is published. I believe we have a general resolution to that effect for these hearings.

Senator Connolly: I so move.

The Chairman: Well, we have one now.

The committee adjourned.

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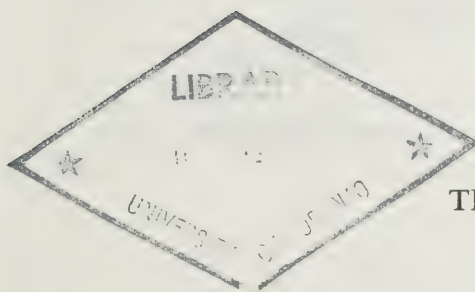
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Publications



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*



Issue No. 15

THURSDAY, MAY 22, 1975

Fourteenth Proceedings respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

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The Honourable Allister Grosart, *Deputy Chairman*

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Deschatelets	Yuzyk—(20).
Hastings	

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(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, May 22, 1975

(18)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9:10 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Asselin, Bélisle, Cameron, Carter, Croll, Lafond, Laird, Macnaughton and McElman. (10)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness:

Mr. Alan Hockin,

Vice President,
Toronto-Dominion Bank,
Toronto, Ontario

At 11:00 a.m., the Committee interrupted its Proceedings.

At 11:05 a.m., a telephone connection having been established with Washington D.C., the Committee resumed its sitting and held discussions, by telephone, with Dr. David Abshire of the Center for Strategic & International Studies, Washington D.C.

At 12:15 p.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 22, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 9 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I have pleasure this morning in welcoming before the committee Mr. Alan Hockin, the Executive Vice-president of the Toronto-Dominion Bank. Prior to entering the private banking field, Mr. Hockin was for a number of years, from 1946 to 1969, with the Department of Finance, where he rose to be Assistant Deputy Minister from 1964 to 1969.

He then went into the private sector and joined Morgan, Stanley and Company in New York for two years, returning to Canada to join the Toronto-Dominion Bank in 1971 and assuming his present post in 1973.

He will be touching on an area we have not yet touched, which is the financial institutions as they affect ties between Canada and the United States.

Before asking Mr. Hockin to make an opening statement, I should mention that we will try to finish with Mr. Hockin's testimony as close to 11 o'clock this morning as possible, so that we may go on a telephone hookup with Dr. Abshire in Washington. We will be pursuing with him, in particular, the desirability of our embassy staff in Washington pursuing a more active role in contact with the Congress as opposed to the Executive.

Senator Carter: Will that be transcribed also?

The Chairman: Yes, hopefully, if everything works properly. Mr. Hockin, would you begin, please? I might add that Senator Macnaughton has agreed to lead off the questioning.

Mr. Alan Hockin, Executive Vice-president, Toronto-Dominion Bank, Toronto: Thank you, Mr. Chairman.

Honourable senators, you have had a great list of distinguished witnesses appear before you in this committee, and I am deeply honoured to have been asked to be one of their number. It is a great work that you are doing, and I am delighted to be able to contribute in whatever small way I can to your deliberations.

I thought I would begin this area of the work of the committee by describing the nature of the financial relations in the private sector which have developed over the years. I can assure you I will not talk about statistics. Those that are available are known to you in the government's publications. Some of the more important relationships in fact, have not lent themselves to statistical measurement. So I thought it would perhaps be appropriate to talk about the nature of the relationships rather than just the statistical measurement of them.

Canadian-U.S. relations in the financial area are extensive and close; much more so than between Canada and any other country. There are a number of transactions which one might describe as originating specifically in the financial sector, owing their existence to no other origin.

For example, Canadians seek long-term funds abroad, largely in a debt form but in some equity form. Here I emphasize it is Canadians seeking the funds. The initiation of the transaction arises amongst Canadians.

The largest participants in this type of operation are governments, and, it so happens, chiefly the provincial governments; to a certain extent, municipal; from time to time the federal government; but on a regular basis, by far the largest seekers of funds of this kind are provincial governments. Corporations also, although the proportion of funds raised by corporations in markets abroad, as a percentage of their total funds raised, has been steadily shrinking, whereas those of provincial governments in particular fell for a while and has since been escalating very rapidly.

The reason for seeking these funds abroad is that the Canadian market may only be willing to provide the funds at significantly higher rates of interest. There is a rate advantage in seeking funds abroad. Also, there are volume considerations. In many cases, the Canadian market has not been prepared to take as large a single issue as foreign markets, particularly the United States, or has not been prepared to take a total volume from any given issuer in a size sufficient to meet his needs.

The reason many of these large issues are sought in the United States is that the United States markets are much larger than other foreign markets. Also, they are better developed and better regulated than other foreign markets, and because of geography, they are more receptive to Canadian issues than are other foreign markets. Of course, during periods when the United States had some inhibitions on the raising of funds in their own markets by foreigners, the Canadian issuers had exemption, or favoured treatment, one way or the other.

In fact, this dependence on foreign markets by these major issuers has been maintained in spite of the fact that the Canadian domestic markets have grown very rapidly and very extensively. I do not think it is generally appreciated, certainly outside this country, just what a fine financial market Canada has in terms of the number of issues which can be placed in Canadian markets, the size of the individual issues, and the speed with which they can be digested into the market. Canadian markets have grown, within my experience, almost beyond belief.

It is not because Canadian markets are not doing their job that funds are sought in foreign markets; rather, it is that the demand for funds is growing even more rapidly, especially on the part of some of the issuers, than the Canadian market has been able to satisfy.

I think it is interesting to note that in terms of the size of individual issues, Canadian markets are now able to place issues almost as large as those that are placed in U.S. markets. When you consider the difference in comparative incomes and size of the two countries, that is really quite a remarkable achievement.

Senator Macnaughton: If I may interject for a moment, when you speak of large issues, how large would they be?

Mr. Hockin: One can get single issues in Canada now ranging from \$100 million to \$150 million at one time. If one multiplies that by the factor of 10, which is sometimes used in comparing the United States and Canada, that would mean an issue of \$1 billion in New York, and a \$1 billion issue in New York is very, very rare. In fact, one can seldom get issues above \$200 to \$300 million in New York. The performance of the Canadian markets in this respect is really quite outstanding.

The second area of initiative by Canadians is transactions reflecting the seeking of short term funds abroad. In this area, the banking system is important. It seeks foreign dollars, U.S. dollar deposits, through swap deposits, so-called, and through straight foreign deposits by foreign banks and others. They also seek funds for their own customers, as it were, by arranging loans to their customers which can be denominated either in Canadian dollars or in U.S. dollars, depending upon the circumstances and the markets at the time. In other words, the borrower beginning with a loan in Canadian dollars may find that in certain circumstances that loan is translated into a U.S. dollar loan, funded by a Canadian lender on the basis of U.S. dollar deposits.

Investment dealers are major seekers of short-term funds in this way, mostly through the sale of Canadian dollar assets which they sell to U.S. investors, sometimes on a buy-back basis, in order to raise funds on a short-term basis for purposes, perhaps, of financing their own inventories, or something of that sort.

Once again, the U.S. market is the most important one, although the Euro-dollar market is also important in that respect. The U.S. market, however, is closer, and simple technical things, such as the fact that we operate in the same time zones as the United States, become important factors. Also, the U.S. market is larger. Once again, it is more familiar with Canadian seekers of funds, and as more and more Americans are willing to invest in short-term financial assets of foreign issuers, those new American investors become more familiar with Canada and Canadian issuers than do investors in Europe. In short, the American market is more receptive to Canadian issuers. There is also a lack of inhibition on capital movements out of the United States, certainly at this time, in a way that has not been the case in Europe, making it easier for funds to move into Canada from the United States.

When one is talking about short-term investments, the number of transactions that have to be interposed between the initial lender and the final borrower is important, and Canadian transactions, basically are conducted in terms of U.S. dollars. If a foreigner, a third country, were going to invest in Canadian assets, the probability is that the transaction would transit the U.S. dollar in some way, throwing out further considerations of exchange rates and the rest of it. So that in any transaction directly with the United States, that extra dimension of a third exchange transaction is lacking.

When one is talking about very short-term flows, that can be an important consideration. It means that there is more certainty in what you are getting. You do not have to go through all of the permutations and combinations that you would have to go when you go beyond the United States.

Canadians also seek long-term investments abroad, and they do that for a number of reasons. They tend to be concentrated in the equity market as opposed to the debt market, and they do it for purposes of portfolio diversification. There are certain types of stocks available in the United States which are not available in Canada, such as high technology stocks, space age types of stocks, stocks in the communications field, and so forth. The Canadian investor who wants to have a broadly-based portfolio may have to go abroad to get stocks of that type to fit into his portfolio. It is also important, in terms of being able to manage a portfolio, that the United States equity markets, basically, are much broader and deeper in terms of the transactions that take place on a daily basis. In other words, one can make substantial purchases and sales of a given stock in New York without affecting the market, whereas if one tried to do the same thing in Canadian markets, the Canadian markets would be, perhaps, unable to either produce the stock in sufficient quantities if you want to buy it or to absorb it in sufficient quantities if you want to sell, without completely disrupting the price mechanism. It is easier to move in and out of stocks in the New York market than it is in the Canadian markets.

There are also, from time to time, currency considerations, where a Canadian investor may feel that he wants to have a hedge against inflation. Perhaps another country's economy is less risky. Therefore if he has some investments in that currency, it may be to his financial advantage.

Once again, United States markets fill this role in a way that markets of third countries do not, because the U.S. markets are larger and are regulated in a way which Canadian investors find reassuring. At the same time, there are fewer inhibitions on the movement of funds in and out of U.S. markets than there are in foreign countries.

Canadians also seek short-term investments abroad for purely financial considerations. These largely fit within the category of rate structures. If one can get a better rate of interest on short-term financing, or if one has funds to invest on a short-term basis, it is easier to follow the rate advantages. There are occasionally currency considerations, once again, if Canadian investors wish to take a position in a foreign currency for financial advantage. Once again, it is easier to do that in U.S. dollars and in U.S. markets than it is in third country markets because of the breadth of the U.S. markets, the familiarity of many of the institutions to Canadian investors, the familiarity with the issuers, and the feeling of confidence in the ability of the issuers to repay their debts when necessary.

There is also, of course, the special case of some long-term Canadian borrowers, who may have borrowed substantial amounts of U.S. dollars for their own purposes, but do not need them all at once. They therefore have some funds which they can invest short-term and then have an opportunity, without further transiting the exchanges, to invest those funds short-term in United States dollar securities rather than in Canadian securities.

So far I have spoken of Canadians being the initiators. Of course, it does happen on the other side, also. Ameri-

cans actively seek long-term portfolio investments in Canada for many of the same reasons that Canadians seek to invest abroad. That is, they want some diversity; they may seek some type of stocks which they think they can get better in Canada than in the United States. This tends to be in the resource areas, rather than as is the case with Canadians who seek American stocks, in the high-technology areas. However, these are specialized stocks, which they feel are more attractive at times in Canada.

There are also foreign, particularly American investors, seeking long-term Canadian debt instruments, largely for reasons of yield, because Canadian interest rates traditionally have been somewhat higher than those in the United States.

It is worth pausing a moment to note the influence which these foreign investors can have upon Canadian markets. Although Canadians who may seek investments in the United States are a very small margin of extra participation, Americans when they come into Canadian markets can very substantially influence Canadian markets, particularly in equities. Americans are used to being able to move these large volumes of stock without worrying about the market and sometimes they attempt to do the same thing in Canada, with sometimes rather disastrous results for Canadian markets, because they do not realize how big they are and what an influence they can have.

There are also American seeking short-term investments in Canada for exactly the same reasons that Canadians may seek short-term investments in the United States: for rate considerations; for currency considerations; for financial advantage; and it is easy for them to move in and out. However, these are all matters with which I am sure, honourable senators, you are all familiar in one way or another. You have heard about all these things and it is the area that gets the most attention. However, the type of transactions on which I really want to focus some attention on is transactions of a financial nature which do not originate in purely financial considerations, but out of the movement of goods and services between Canada and other countries.

These, in fact, because of the sheer volume of our export and import trade, our tourist trade and our trade in services such as insurance, transportation and the like, in terms of volume far exceed the transactions which originate purely in the financial sector. Every transaction between Canadians and foreigners, be they Americans or others, of a physical nature is accompanied by some type of financial transaction. Someone pays; the exporter gets paid for his exports by the foreigner, usually in U.S. dollars. He may be borrowing funds for the period during which his goods are in transit, or while he is producing them. He may choose to export them and hold them in some sort of stock abroad. At any rate, in many cases they are short-term borrowings related to that movement of goods. There are payments which transit the exchanges and this throws up for those who participate in these physical transactions all kinds of opportunities for financial transactions which link the two financial markets. The exporter has a choice as to where he borrows his funds. Does he borrow them in Canada, from Canadian lenders, in Canadian dollars and wait to receive payment in U.S. dollars, which he then translates into Canadian dollars? Does he borrow from a foreign lender, in U.S. funds and, when he receives payment, does he immediately repatriate his funds, or does he invest them short-term

in United States dollars; does he repatriate them and invest them short-term in Canadian dollars? There are many permutations and combinations which he can choose and, because of the high level of short-term interest rates, these considerations are very important to corporate treasurers. They can no longer ignore short-term funds and we in the banking community are very aware of this. They must invest those funds to take advantage of interest rate differentials, when they are borrowing, or investing, because in many cases that will make a significant contribution to the financial results of a corporation. Therefore transactions arising out of these physical movements of goods and services in terms of sheer volume are to my mind vastly superior to those arising out of purely financial transactions of the financial investor or financial borrower just going and seeking funds. Unfortunately, they are not measured; one never knows, because they just get subsumed in the whole banking system of the two countries, reported as part of other transactions, which one can never trace to the exact foreign component, as it were, because of the movement of goods and services behind it. Not only are these the largest, but they are the fastest growing, because Canadian trade has been growing faster than the purely financial transactions of the type I have been describing heretofore, of the seeking of funds abroad for long-term investments, or of the seeking of investment opportunities abroad, and, of course, because of the fact that U.S. trade represents some 70 per cent of Canada's trade, we have the vast bulk of these physical transactions taking place between Canada and the United States.

Further to that, Canadian exports are traditionally, to a very high degree, denominated and conducted through the medium of U.S. dollars rather than any other foreign currency. Therefore, whether we export to the United States or to Germany or Holland, those exports are paid for in United States dollars. It is United States dollars that are thrown up as a result of this and it is the availability of investments in U.S. dollars which is most readily thought of by the exporter as to where he uses these funds which he receives, or where he borrows to finance his exports. This makes the emphasis on U.S. dollar relations much more important than the sheer volume of physical transactions between Canada and the United States, great though they be; it is even greater than that.

Now, I do not know, Mr. Chairman, whether you would like me to continue and discuss the financial intermediaries. I may have spoken sufficiently long to go to discussion in this area, or it may be desirable to pause and permit questioning.

The Chairman: Was the subject of financial intermediaries the only other item?

Mr. Hockin: Yes.

The Chairman: Then, why do you not finish off now?

Mr. Hockin: As to the financial intermediaries which participate in these financial transactions, you will understand it if I mention first the Canadian bankers.

The Canadian banks are very active. They are the most active participants in the foreign exchange markets, and it is through their services that the financial transactions between Canadians and foreigners are carried out. They are very active originators in the movement of short-term funds in both directions, depending upon their need for funds, either in Canada or abroad. This really relates to

the demands placed upon them by their Canadian customers, be they demands for funds for operations of those customers in Canada or demands for their services in terms of some of their operations abroad.

Here it is worth noting that the Canadian banking system, unlike the banking systems of many countries, does not take foreign exchange positions of any size. This leads to some difference between the role of, say, the Canadian banks and the New York banks in this Canadian-United States financial relationship. Canadian banks basically cover their positions, so they never take a view of Canadian exchange movements. There may be a few overnight positions, but I would say in total they probably do not amount to more than some \$25 million, whereas individual New York banks may have long or short positions in Canadian dollars far in excess of those amounts, and when you add them all together they can be very substantial.

The Chairman: You are saying that you balance every night?

Mr. Hockin: We balance virtually every night. There may be small positions, but they are very small, so that there is no residue there of absorptive capacity by the Canadian banks if the transactions of the day do not balance out. That residue has to be sought either in the New York banks or in the Bank of Canada.

The other thing worth noting is that, although Canadian banks are very active in foreign countries and in foreign currency business—and one can say that probably 25 to 30 per cent of all the assets of the Canadian banks are now foreign currency assets—those are not financed by the movement of funds from Canada abroad. Canadian banks basically raise the funds in foreign currencies which they need to lend in foreign currencies. They accept foreign currency deposits and make foreign currency loans, but they do not draw on their Canadian dollar deposits in Canada to fund their foreign currency assets. That is true of the banking system as a whole, not just any individual bank.

The Canadian banks, because of their age, their size and the experience that people have had of them, are fully accepted abroad as institutions in which foreign investors are prepared to place deposits. This gives them a great advantage in being able to conduct business on behalf of their customers. They can raise funds at times that other banks from other countries, or even smaller banks in the United States, have difficulty in raising deposits, such as during the period of, say, nine months to a year ago. Thus the Canadian banks are very active in facilitating the financial transactions that take place between Canadians and foreigners, including those of the United States.

United States' banks are very active in these transactions between Canada and the United States as well. As I have described, they are prepared to take currency positions, and therefore they play a role that is rather different from that of Canadian banks. They form a kind of residual pool of buying or selling capacity of Canadian dollars in exchange for United States dollars.

They also, of course, have become active in that as they establish subsidiaries—not called banks but financial subsidiaries—in Canada, those financial subsidiaries are beginning to issue Canadian dollar commercial paper for short-term investments, which are frequently sold across the border back into the United States, although they are denominated in Canadian dollars. They are therefore de-

veloping a channel here which is rather specialized, in that it carries the name and guarantee of the American parent and is therefore recognized by United States' investors who may, for all the considerations I have mentioned, want to hold Canadian dollar denominated short-term assets. The name of a big New York bank which appears as a guarantor of a Canadian dollar short-term instrument is, understandably, particularly acceptable to United States' investors in the way that a piece of commercial paper issued by a purely Canadian corporation not widely known in the United States would not be accepted there. So this is a rather important development of the last couple of years.

They, of course, are also active in seeking to finance Canadian business, not only business of Canadian corporations abroad but also purely Canadian business of Canadian businesses. They seek to raise Canadian dollar funds and make Canadian dollar loans, but because of their position in the United States are once again able to bring in funds from abroad when that is necessary to fund these loans to Canadian borrowers.

The Canadian investment dealers are very active as intermediaries in this way. Some of them have offices in New York, some of them have seats on the New York Stock Exchange or one of the other regional stock exchanges in the United States. Their function can be characterized mostly as that of selling new and outstanding Canadian issues to United States' investors, not always through their New York offices, sometimes through their Canadian offices, either on the telephone or by taking trips through the United States to visit investors they have come to know.

They have also been active in placing these Canadian dollar instruments issued by these Canadian subsidiaries of United States banks, which I mentioned a few minutes ago, both in Canada and in the United States.

They have in recent years become very active in foreign currency short-term investments by seeking out combinations of deals, swapping currencies and finding short-term money market investments which they will then offer to Canadian investors as an alternative to those Canadian investors going through the banking systems.

United States investment banks are important intermediaries. Essentially, their role is that of raising money in the United States for Canadian issuers. They are beginning to act now in Canada for Canadian issuers, raising Canadian dollar funds for them, but the large volume of their business is in raising funds in the American financial markets for Canadian issuers. Here they have particular skills in dealing in the United States' market, and they have relations with United States' financial institutions that can be expected to buy these issues. Therefore, they are the main channel through which Canadian borrowers such as the provinces seek to raise funds in New York.

The Canadian investment dealers who have offices in New York usually are brought into any syndicates which are set up by these American houses, largely at the instigation of the Canadian issuers who say to the American underwriter "We want Wood Gundy, Ames, McLeod, Young Weir, Dominion Securities Harris, whatever it is, to be participants in that underwriting syndicate."

Finally, you have the insurance companies, both Canadian and U.S., and these financial institutions are unique in that because they have been established for so long, many of them operate in the two countries without a

separate incorporation. There may be Canadian insurance companies which operate in the United States without a separate U.S. incorporation, and vice versa, and they move funds back and forth to handle their own financial requirements in large size and with great alacrity, very conscious of rates, very conscious of the financial markets of the two countries.

So they are the main financial intermediaries which provide the links which I have been describing. One might mention also the fact that some important stocks are interlisted between American exchanges and Canadian exchanges, and this, in turn, is another way in which the financial markets of the two countries are linked, because if there is ever a difference in the quotations of the stocks on the two exchanges, which cannot be explained in terms of exchange rates—the price of the U.S. dollar in Canadian terms—arbitrage will take place; so that the prices will even out and you will have flows of funds which take advantage of any differences which may occur.

This tends to link the levels of the prices of these stocks on the two markets.

Also, of course, you have psychological links, which are very important because of the fact that these intermediaries, the issuers and investors, are all dealing in each other's markets all the time; which means they are very constantly aware of the conditions which develop in the other market, and they tend to assume that those conditions will be transmitted to the other market, whichever it is—mostly from the U.S. market to the Canadian rather than vice versa.

Canadians, of course, because they are such active participants, are very aware of conditions which go on in New York. The media links are very close, the communications are almost instantaneous, and, as a result, shocks which may upset a New York market, even for purely domestic considerations in the United States, may be reflected by movements of Canadian markets, although, from a purely Canadian point of view, that would not really make much sense. But they realize that whatever influences hit the United States markets will have a bearing on Canadian markets.

So there is a great psychological link, which tends to keep these markets working together. This, of course, has some interesting implications in terms of monetary and fiscal policy. Perhaps we can stop there, Mr. Chairman.

The Chairman: Thank you very much. That certainly gives us ample food for thought to start our questioning. I will commence by calling on Senator Macnaughton.

Senator Macnaughton: Mr. Chairman, I feel very small and insignificant in the presence of Mr. Hockin and the extremely lucid and plain language he uses to explain financial dealings on behalf of Canadian banks in particular. It is not often that we have a person who is so lucid and understandable—at least, to a person of my mentality. I would like to thank him for the opportunity of listening to him this morning. He is the sort of person one could listen to for hours.

To get the ball rolling, I would like to refer you, sir, to the Foreign Investment Review Act, and ask whether, in your opinion, this legislation has had a negative effect on American investment capital coming into Canada.

Mr. Hockin: Senator, I think that the psychological links which I mentioned toward the end of my presentation are

very important here. Financial investors are very sensitive animals. They live on feel as well as very careful calculations of comparative advantages, because they realize that their careful calculations, which may lead them to make a particular investment, may be thrown to naught if the rules of the game change. Therefore they are always on the lookout for what they consider to be evidence of changes in attitude on the part of the public and of governments towards their presence in the country.

The thing that is probably the most damaging to an investor or that gives him the most concern is uncertainty. If it is uncertainty in an area where he really does not expect anything to happen, that is one thing; but if it is uncertainty in an area where he has seen attitudes and policies change, then that uncertainty itself becomes extremely scary to him. He tends to say "Oh, it is not worth even investigating the possibilities there, because I would not be able to find out what I could do, or if I thought I found out what I could do today, that might change next week." Therefore the greater the uncertainty that is produced in legislation, the greater the negative impact could be.

This creates a real dilemma for moulders of policy, such as yourselves, because, on the one hand, it is very difficult in these complex situations to spell out all the rules of the games completely so that there is no administrative discretion left. You are always afraid that you will bind yourselves so closely that you cannot make exceptions of a sort that may be desirable. On the other hand, if you do not spell them all out, and you leave a lot of room for administrative discretion, this creates in the mind of the potential investor that extra degree of uncertainty. He does not know how he would be regarded. He knows that he will have to go in and make a presentation, that it will take some considerable time, and he does not know what the results will be.

Time costs money these days. So the natural tendency is to say, "Well, that is just the final negative factor in the balance. I will not go ahead with it."

I am not saying that this is necessarily a bad thing. I am saying that the greater the uncertainty, the greater the impact on the attitude of the foreign investor, and it is conceivable that it could go beyond what was intended. I do not know.

The other point I would like to make is that a transition from one policy to another, even if it is understandable, desirable, explainable, to the foreign investor, takes time to settle down; and until he sees how the act is administered, he may be more nervous than he will be if he sees a pattern established which he thinks is a reasonable one.

Now, reasonableness, of course, is something which depends upon the point of view of the person concerned. What may appear reasonable to a foreign investor may not appear reasonable to the Canadian Parliament or public. I think one has to find a balance there if one wants transactions to continue.

The objectives, I think, have to be fully explained and understood in the hope that the foreign investor will accept the particular degree of control which it is desired to impose. It is not always easy to get to all those foreign investors in a short space of time. It may take time for the thing to settle down. In the short run, of course, it has had a negative impact. It was designed to have a negative impact, as I understand; and the actual degree of negative impact may have been greater or less than was intended

by the proposers of the legislation. That, I cannot say, but it certainly has had an impact.

Senator Macnaughton: If I understand you, what you really mean, in effect, is that judgment has been suspended temporarily as to a good or bad result.

Mr. Hockin: That is right. I think people are reserving judgment. They would like somebody else to go over the hurdles first.

Senator Macnaughton: It depends on the bureaucratic application of the rules.

Mr. Hockin: That is right.

Senator Macnaughton: On the other hand, how do Canadian authorities regard the American government's guidelines to U.S. corporations concerning the repatriation of Canadian subsidiary earnings to the United States? Do they consider this justified on the part of the American government, or perhaps interference by U.S. authorities in the activities of American subsidiaries in Canada?

Mr. Hockin: Not being a Canadian authority, Senator Macnaughton, I cannot answer for the Canadian authorities.

Senator Macnaughton: Perhaps the question is not altogether fair, although it was not meant to be unfair. We have all run into the situation in the past where these funds were asked for by the head office and, in some cases, taken out, much to the disadvantage of the Canadian economy generally. For years those funds were left here to be used as the basis for development.

Mr. Hockin: As a non-governmental person at this point, and speaking as an individual involved in the financial field, I would say that to the extent that the investment was made in the first place in a Canadian subsidiary for financial-commercial considerations, and it was considered by the corporation making that investment to be desirable that those funds remain in Canada, the attempt by the United States government to influence the commercial and financial considerations of that corporation and cause it to repatriate those funds to the United States which would otherwise be left in Canada, would appear to upset the normal financial-commercial considerations. As a Canadian, I would say the susceptibility of foreign capital to directives of this kind would make the desirability of that foreign capital diminish because it would not be something one could count on.

This is the other side to the coin of what we were discussing a few moments ago. If considerations other than purely financial-commercial considerations are brought to bear, and there is an uncertainty as to what those considerations might be, that would tend to make people who would want to rely on those funds for investment in Canada for development purposes to be a little leery about wanting to take them. That does not only apply to American capital. That is precisely one of the reasons why there has been a certain caution on the part of investors outside the OPEC countries as to how they should accept OPEC funds. One isn't sure how they will be used in the future—whether they will be withdrawn precipitously, or what the circumstances will be. One is always a little nervous about these things. It certainly has thrown a degree of uncertainty into the stability of the investments that are represented by those foreign concerns when third countries can cause those funds to be

repatriated for other than financial-commercial considerations.

Senator Macnaughton: You made some extremely interesting comments in the course of your remarks, one being that frequently U.S. banks take on foreign exchange position. Would that have been the case with the Franklin Bank which eventually got into trouble?

Mr. Hockin: I think that was an element in it. Certainly, it was not the only American bank that would be prepared to take a foreign exchange position. Some very large powerful banks do it. They do it, of course, on the basis of good experience. They have been doing it for years. I would not suggest that they are in any way unsound because they do it, but if you are going to be in that game, you really have to know your business very thoroughly, and some of the newer participants, I am afraid, do not have as great a degree of experience as do some of the older banks.

Senator Macnaughton: The same is true, is it not, of German, Swiss, Italian, and even French banks?

Mr. Hockin: I cannot answer that with regard to French banks, but certainly German banks are involved in this and many of them have had great problems in this area.

Senator Macnaughton: In the background notes we were furnished it is stated that in the last two years, under provincial charters, 170 foreign banks have moved into such areas as Vancouver, Toronto and Montreal, issuing notes guaranteed, as you explained earlier, by the parent bank. What is your opinion of the coming struggle between the Canadian banking system and the importation of foreign junior banks which do not operate under the same regulations as do Canadian banks?

Mr. Hockin: Quite clearly, we feel that this incursion of foreign banks under different ground rules from those under which we operate is not a healthy development. It is not healthy from the point of view of the ability of the Canadian authorities to influence credit conditions in the way they have been able to do via the Canadian banking system to date, and it is unfair in that these foreign banks have certain powers of doing things which are denied Canadian banks. In addition, they are able to raise funds in the short-term market in a way which is very similar to deposit-taking, although it is not exactly the same. It is the issue of commercial paper on the strength of a large well-known foreign bank. And yet those funds are not subject to reserve requirements or any of the other restrictions which apply to Canadian banks operating domestically. For those reasons, we feel something has to be done about this situation.

Senator Bélisle: In moving the second reading of Bill S-24 in the house on Tuesday evening, Senator Hays referred to "suitcase banks." I am wondering whether these are the same types of banks as those to which Senator Macnaughton referred.

Senator Macnaughton: Yes, although I do not know whether we can accept Senator Hays' term.

The Chairman: I think the reference is to the same type of thing.

Mr. Hockin: The term "suitcase banks," came about as a result of the days when they did not have offices in Canada. They operated out of their head offices and they

went around, as it were, with their moneys in suitcases and operated from hotel room to hotel room. What we are talking about now is the fact that many of these banks have opened offices in Canada and many of them have established subsidiary financial institutions incorporated in Canada—not as banks, but as financial institutions of one kind or another—which are in a position to issue Canadian dollar obligations and make Canadian dollar loans. Although they made Canadian dollar loans before, the obligations had to be raised out of their head offices. Now they can raise those obligations in Canadian dollar terms in Canada. So that it is the next step of development from the purely suitcase function.

The Chairman: Interim financing of an office building would be one example, requiring no office facilities. A lawyer can arrange the mortgage and so on.

Mr. Hockin: Yes, but they also do leasing, which Canadian banks cannot, factoring and some of these other activities in addition to the commercial loans which Canadian banks do.

Senator Macnaughton: Referring to U.S. investment banks which raise U.S. funds for Canadian issues, is it a fair question to ask you if you could give us some names or examples?

Mr. Hockin: For example, the Province of Ontario, Ontario Hydro, or a large Canadian corporation may decide, for whatever considerations, that it wishes to raise a loan in New York. They would seek out the services of an American investment bank or, in many cases the American investment bank would have called on them to suggest that it was available any time they needed it. That investment bank, which plays the same role in the United States as an investment dealer in Canada, which is really an underwriting role, would then form a syndicate in the same way in which a Canadian new issue would be placed by a syndicate to Canadian investment dealers. That underwriter in the United States would call on his institutional customers who were in the habit of buying bonds and persuade them to buy the issue of the Canadian issuer, which would usually be denominated in U.S. dollars.

Senator Macnaughton: The question was: Could you give us the names of a few of the U.S. banks, just to pin the label?

Mr. Hockin: For example, the firm with which I was associated in New York was Morgan, Stanley, which is an old established investment bank. There is First Boston Corporation, Salomon Brothers, Merrill, Lynch . . . There are a great number of these, all of which are known to these constant Canadian issuers and all of which have called on both the existing and potential Canadian issuers.

Senator Macnaughton: Due to the fast-changing nature of your business, if I may put it that way, and the fact that the Bank Act revision comes up in a year or two, do you anticipate quite a struggle between the banks and the trust companies, that is Canadian banks and Canadian trust companies, to say nothing of the other interests we have discussed?

The Chairman: Is that question related to Canada-U.S. relations, Senator Macnaughton?

Senator Macnaughton: That is a point well taken, Mr. Chairman; it is and it is not.

The Chairman: Please go ahead and answer the question, if you are able, Mr. Hockin.

Mr. Hockin: It is a little apart from the discussion which I was asked to attend. If it would not be objectionable to the honourable senator, I would prefer not to answer.

Senator Macnaughton: Can you explain the Friday to Monday deposit issue, whereby Canadians can put U.S. funds in New York from Friday night to Monday morning and earn interest? It just sleeps there overnight; it is put in on Friday and taken out on Monday and will earn interest. What does the American institution do with that money over the week-end? How can they afford to pay interest?

Mr. Hockin: It is surprising how some transactions do in fact go over a weekend in such a manner. It is just not a one-way street, senator; sometimes funds come in from New York on a Friday to Monday basis also. However, of course, there is a difference in New York, in that there is a federal funds market available for a particular day, immediate delivery, which we do not have in Canada. It may well be that some of these considerations affect the availability, or necessity of funds for even such a short period and over a weekend.

Senator Laird: Mr. Hockin, with respect to this matter of the Foreign Investments Review Act, you have certainly put it very succinctly in saying that there is a psychological effect, and I notice that you indicated that in your opinion Americans were reserving judgment on what would happen under that legislation. I would like to suggest to you that, from my experience at least, I am afraid that they will reserve judgment in the same manner as some judges I know, who just never give a judgment. It may have scared off many potential investors permanently. Do you feel that is a valid conclusion?

Mr. Hockin: It is difficult, senator, to attempt to, as it were, quantify the reactions to a particular piece of legislation. I would say it is fair to characterize the foreign investors' attitude as being influenced not only by the Foreign Investments Review Act, but by many other things which have been said and done, not only by governments, but also in the media, speeches and what have you.

Senator Laird: Right.

Mr. Hockin: I believe that foreigners basically have come to believe that Canadians as a whole are much less receptive to foreign investment. They, to the foreigner—seem sometimes to be getting a little querulous on the subject. There is even a feeling beginning to develop that perhaps Canadians are no longer taking a neutral position as to the source from which the funds come, whereas before we said there was one rule applying to all foreigners. Unless they can see the evidence of it, they are beginning to wonder if, perhaps, we are not becoming rather anti-American.

Of course, the greater the degree of administrative discretion, the fewer the specific rules are, the more they are inclined to say "Well, we will need to see in fact how the particular cases are dealt with before we can assure ourselves that this anti-Americanism is not creeping into the administration of the act". This, of course, will take time. People who are sensitive, as investors are, tend to see all kinds of burglars under the bed, also. They may feel more affected than, in fact, they are. In the whole financial area, psychology is of primary importance and psychology is a very difficult thing to manage in mass terms, such as we

are now discussing. Sometimes our governments take actions which have effects other than those intended of a psychological nature such as I have been describing. The governments are then very surprised when it turns out that their actions have such an impact. Sometimes they can deliberately use it as a weapon. It is a very potent force.

Senator Laird: You jumped the gun on me, because that was to be the second phase of my question. I view with alarm what some prominent Canadians who get publicity have to say with respect to this subject. You have, as I say, jumped the gun on me and confirmed what I thought, namely, that it had a deleterious effect in the United States; there is no question about it. Allied to that, if this feeling exists also in official circles, can we then anticipate that in future we will not get special treatment. For example, under the Interest Equalization Tax we were exempt. This is an example of what has been done for Canada by the United States. From now on, do you think that officially the attitude may change so that we may no longer anticipate special favourable treatment?

Mr. Hockin: There are two points I would like to raise in answer to that. One is that, as I interpret the position of the Canadian Government now, they consider it no longer appropriate to seek a special relationship of this kind. Therefore, they would not be surprised or alarmed if in fact such a special treatment were no longer available to them if the occasion should arise. I think it would be unlikely that the United States would in these circumstances volunteer a special relationship.

The second thing is that, quite apart from official positions, exemptions or what have you, I think there may be a different opinion growing up within the private financial markets themselves. I believe we are reaching a stage when capital requirements around the world are going to be so large in total, and where the requirements for individual investments are getting so large and complex because of the nature of the investments that are required—large pipelines perhaps under the Arctic Ocean to get gas off the off-shore islands, or some of the remote resources developments, or some of the high technology developments, heavy water or what have you—competition for these large, rather specialized blocks of funds may become great.

In the past there has tended to be on the part of the large American institutional investors rather a soft spot in their hearts, if not in their heads, for Canadian investments. They are familiar with them; they felt they knew the Canadian political climate, they were confident in putting large amounts of money there. We were able, as Canadians, to raise funds in New York when others could not, leaving aside any Interest Equalization Tax or the rest. We had a particular preferred position amongst the private financial institutions. As those requirements become large all over the world, including the United States itself, the competition for these large blocks of funds and these rather specialized types of funds may become rather great, and I suspect that Canadian issuers of any kind, be they corporate or governmental, may no longer be able to count on this basic bias of American institutional investors.

There is another aspect of it here too, which sort of links the two of them. As these funds do become more difficult to raise, all institutional investors have political antennae too. We have it in the Canadian banking fraternity; we are

very sensitive to what the Minister of Finance and the Governor of the Bank of Canada suggest to us is important. If we sense that there is public support for a particular major project, we will be more inclined to take a favourable view towards investment in that area than we might otherwise do. The same appears to be true in the case of the United States' institutional investors. They are very much aware of what the American public might consider to be in their national interests, and they are more likely to sort of veer in the direction of those that have a positive reaction on the American public than those that might not have such a positive reaction. You cannot really distinguish between public reaction and official pronouncements; they are all linked together.

I think that, considering all these things, the special advantages Canadian issuers have enjoyed in New York are no longer as certain to us as they once were.

Senator Laird: The proposition you made was that the really important financial interrelationship grew out of things physical, goods and services. In that connection, do you think the fact that we have floated our money has had any effect, or will have an effect in that area, which of course would be unfortunate?

Mr. Hockin: So far, it seems to me that it has not had a serious effect, as some people feared it might have. Now, there might have been individual instances where the uncertainty of the Canadian dollar's role became an inhibiting factor. However, partly because of the way in which the Canadian dollar has in fact floated, these fears have tended to be played down. The Canadian dollar has really remained within a reasonably small range around the American dollar. Therefore, it has not had wild gyrations. This has tended to reassure exporters and importers, that there may be small variations but not excessive.

It is interesting that at the time the desirability of having a floating exchange rate system, as opposed to the Bretton Woods system, was being debated, before it happened, one of the main arguments made in favour of floating the exchange rate was that, whereas under a fixed rate system exporters and importers normally would not hedge their currency positions and therefore provide a kind of stabilizing factor, they would only come in and take a position if they thought the rate was going to move, and that tended to exacerbate it; if the rates were floating they would all go in then and hedge their positions, and this would tend to even out the flows. In fact, that has not occurred to any large extent, I think partly because of the cost of short-term money. It is considered to be too expensive to hedge a foreign exchange position in normal circumstances. There has not been that reaction. This in itself is interesting, because it suggests to my mind that, although the rates are free to float, Canadian exporters and importers have not felt they are likely to float so far that they felt they should go to the expense of hedging their positions.

Senator Laird: So there has been a feeling of stability?

Mr. Hockin: Yes, I would say there has.

Senator McElman: You realized it is a controlled float, not a free float.

Mr. Hockin: It depends on how you define "control".

The Chairman: Just a little bit dirty.

Mr. Hockin: I think anyone who participates in exchange markets would be very alarmed if they felt that the au-

thority, whoever he is, was not intervening at all in exchange markets. They have, as it were, to keep orderly conditions; and the traditional Canadian approach has been to lean against the wind but not to resist the irresistible.

We do not know where we will be going from now on, but that, up to this point, has been the case. You can say that because there is intervention, it is dirty float, but I would not interpret it as dirty float. I would interpret that as helping to manage the market so that it does not get pushed around by wild gyrations.

The Chairman: To exemplify my aside, for the record I might say it has always been my understanding that international money markets consider the degree of Canadian governmental intervention leaning against the wind, as you express it, as basically maintaining a clean float.

Mr. Hockin: Yes. There have been rumours from time to time that there was a dirty Canadian float. I do not think the evidence has suggested there has been anything but what I would define as a clean float; but, of course, the definition of clean float is still to be determined.

In one respect, Canada is far ahead of anyone else, because we have had a floating exchange rate for so long, and we learned how to do it in a clean way. The others are still finding their way into this. But it may well be that some of the negotiations in the group of ten or twenty are related directly to trying to codify, as it were, clean float as opposed to dirty float.

Senator McElman: Perhaps there should be a new term in between—responsible float.

Mr. Hockin: That is a good word.

The Chairman: Before proceeding to Senator Bélisle, who is next on the list, may I touch on one thing that has been dealt with at some length by Senator Laird—that is, the Foreign Investment Review Act. May I ask whether or not the uncertainty, which has arisen not only by that act but by the other things in Canada to which you referred, has primarily affected equities; and to what extent those considerations have had any effect on the lending of debt money on the American and Canadian markets?

Mr. Hockin: I would agree, Mr. Chairman, that it would not have as much effect on the debt market—

The Chairman: Would it have any effect on it, to speak of; or should it have any effect on it, to speak of?

Mr. Hockin: It probably should not have, but one cannot be sure that it doesn't. As I said before, investors are very nervous animals. If their image of Canadians as being welcomers of foreign capital is disturbed to the place where they say in some way they are not welcoming foreign capital, then it is not always logical, but it sometimes happens that they say, "Well, if they are not going to be prepared to welcome this, they might change their laws and permit people not to pay their debts". Who knows? If they get into that mood, there is no knowing what they might do. It is not logical, but it underlines what I am saying about the importance of certainty and specificity in a position, because the more imprecise are attitudes and policies, the more they can say to themselves "Well, maybe they might do this and maybe they might do that"; and they tend to lean over backwards and say "In that case, let us not do anything."

Senator McElman: Would that not indicate the need for a rather early determination on phase two?

Mr. Hockin: Certainly the longer the uncertainty exists, the more disturbing it can be, or the longer it will take people to sort of say "Well, it seems to us that there are certain things that we can do, and we can go ahead and do them". They tend to reserve judgment, and the longer they reserve judgment and do not take investment decisions, the more likely it is that they will find alternatives and will not want to be bothered coming back in.

Senator McElman: It would almost appear that the witness had a discussion this morning with Ambassador Porter. He was on "Canada AM" and expressed very much the same views that you have expressed here this morning.

Mr. Hockin: I am sorry, I did not hear him.

Senator Bélisle: I would like to join with Senator Macnaughton in saying that the witness has impressed us with the quality of his statement this morning, and with the facility with which he expressed, in common language, his views on the financial problems. I would like to ask the witness—I believe he has already touched on this this morning—whether the capital linkage between Canada and the United States is unusually close, in international terms, and whether it exists to the same degree between the United States and, let us say, Japan, or two other countries, to his knowledge?

Mr. Hockin: No, Senator Bélisle, I do not think it does. In fact, I know it doesn't. There is no linkage that is as close and pervasive as this particular linkage. It arises partly from the fact that most other countries have, since the Second World War, maintained some form of either direct controls or inhibitions of one kind or another on the movement of capital in and out of their own countries; so that there have not been the possibilities for capital relationships of this kind to develop.

In addition, there are very few countries where the trade links, of the kind I suggested as forming a basis for a lot of these financial links, are as concentrated.

It may well be that some of these phenomena may appear within the European Economic Community. The deliberate policy there, of course, is to try to forge closer links, both commercial and financial. This kind of linkage may be in the process of formation in Europe.

Apart from the City of London, Europe does not have the kind of fully developed, highly sophisticated, open capital markets which exist in North America, both in the United States and in Canada. They have not the kind of institutional framework within which to form this kind of linkage to the same degree that we have had.

Senator Bélisle: Seeing that you refer to the Common Market, and knowing the Common Market's aim in 1980 is for full political union, do you think that this concept is possible?

Mr. Hockin: In Europe?

Senator Bélisle: No—on this continent.

Mr. Hockin: So far as Europe is concerned, they have a particular negotiated relationship which began with an objective, toward which they are making progress, sometimes slow, sometimes rapid. There is a political direction there and a drive which is trying to bring this about.

As I interpret the North American scene, the political drive is, if anything, the reverse.

The Chairman: Before we proceed, so that the record will be correct, Senator Bélisle said that the European Community's objective was for full political union by 1980. I think he meant monetary union.

Senator Bélisle: No, political.

The Chairman: I do not think that is their objective.

Mr. Hockin: There are differences of view amongst the participants in the European Economic Community as to how far one wants to go down the political, monetary or commercial roads. I am not sure that they would all agree with you that political union by 1980 is possible.

Senator Bélisle: I believe this committee visited the Common Market some two years ago.

The Chairman: Yes. My recollection—I may be quite wrong—is that they did not anticipate political union at that time, but at a summit meeting about two years ago they declared they would seek monetary union by 1980. I believe the conventional wisdom today is that they have given that up as being entirely unattainable.

Senator Bélisle: That is right. I returned from Europe about two months ago and the consensus is that there is no possibility for a common dollar policy.

Until about the turn of the century, Canadians borrowed money in the financial markets of Great Britain. How did the monetary love affair, if I can put it that way, develop between Canada and the United States?

Mr. Hockin: I suppose it is partly a function of the availability of capital and propinquity, and it is also a function of the changing patterns in trade relations. At the turn of the century, commonwealth trade was much more important proportionately both to Canada and to Great Britain than it is today. This reinforces my view that in many ways financial relations are closely linked to trade relations.

Sénateur Bélisle: We have been reading a great deal of late about the need for the City of New York to borrow a substantial amount of money. Do Americans ever borrow in Canada?

Mr. Hockin: Not to any great extent, senator. There may have been occasions on which Canadian subsidiaries of an American parent might have borrowed one way or another in Canada and repaid the debt to its parent in the United States, but as far as a United States issuer coming into Canada and either going into the open capital market or selling bonds, or even borrowing in Canadian funds to send directly back to the United States, I do not think that has occurred. In fact, the Canadian government has very gently tended to discourage foreign issuers from coming into Canada on the grounds that Canadian needs for capital are so great that the Canadian capital markets' energies should be devoted to fulfilling the needs of Canadians rather than foreigners.

The Chairman: Supplementary to Senator Bélisle's question, would you be prepared to comment on the complaint of a number of people in Canada with respect to the form of American borrowing in the Canadian markets whereby American parent companies raise all of the money for the expansion or development of a subsidiary

in Canada by borrowing from Canadian banks and then use that money to acquire all of the equity, as well as the debt, or if not all of the equity, at least control of the subsidiary?

Mr. Hockin: Because I am not on the credit side of our banking operation, Mr. Chairman, I cannot identify a situation in which an American parent borrowed the equity as well as the debt, but as far as the debt requirements of the Canadian subsidiary are concerned, I think it is common practice to seek financing, in ever-increasing degrees, in the Canadian capital markets, whether it be the banking system or the Canadian equity or debt markets, in particular the debt markets, as the Canadian system is more able to cope with these requirements and on the grounds that it makes good corporate sense that there not be a greater exchange exposure for that Canadian corporation and that it should be, as it were, financed within Canada. Of course, there have been many instances where the American parent has begun to sell off some of the equity as well to Canadians.

The Chairman: Yes, equity often being a nominal amount of the money involved. To make my point quite clear, some Canadians are very critical of the process whereby an American parent, the endorsement of which is entirely acceptable to any lender in the world, will raise all of the money for a new development through Canadian banks and, without putting up any money itself, end up with the controlling interest in the Canadian subsidiary.

Mr. Hockin: I think there are two points to be considered in that respect, Mr. Chairman. First of all, whether that is different from the performance of any major corporation which seeks to increase the proportion of its capital in the form of debt. There are certainly ratios between debt and equity which are considered most desirable from the point of view of the corporation itself or acceptable from the point of view of investors. Real estate, I suppose, is the most extreme form of that in that many Canadian developers have sought to borrow 100 per cent of the money necessary to put up a real estate development.

It does not really depend on whether it is a foreign-owned or Canadian-owned company. It is the nature of corporate financing. I would not consider it inappropriate from the point of view of seeking debt money of some kind, depending upon the nature of the business, to raise a substantial portion of the debt money within Canadian markets as opposed to equity money.

You have to ask yourself whether it is in Canada's interests, or whether Canadians have been hurt by the fact that so much of this debt money has been raised in Canada. There are two considerations, one being that if the foreign parent, because of its name, as you have put it, is able to raise money in Canada that Canadians cannot raise for their own Canadian-owned operations, then I think there would be cause for complaint. I think there may be individual cases where Canadian businessmen have claimed that they have been hurt in this way.

If you look behind the situation, in many cases you will discover that the problem was that their own particular proposal was not considered sound by investors and therefore they could not raise money. It does not matter whether there were Americans raising money at the same time. They still could not have got it.

The other thing, of course, is that Canadian institutions, such as the chartered banks, feel these political antennae

that I told you about earlier, and we are told to make sure that the needs of Canadian customers are looked after. We feel this ourselves, and we have certainly been told by the Governor of the Bank of Canada and by the Minister of Finance to make sure that the needs of Canadian customers are looked after first. On a number of occasions when there have been tight monetary conditions in Canada, the Governor of the Bank of Canada has told us that he hopes we will look after the needs of Canadian borrowers who do not have the access to funds in other markets.

Leaving aside that aspect of it, you have to ask yourself whether it is in the particular interests of Canada that all of the debt requirements of Canadian subsidiaries of American parents should be imported from abroad. Think of what that could do to exchange rates in certain circumstances.

The Chairman: Yes. One final question. Could you explain the reason why interest rates in Canada are normally set considerably higher than interest rates in the United States? Interest rates in Canada are often one point higher, or more, than interest rates in the United States.

Mr. Hockin: Of course, it varies from time to time and on different segments of the market. Believe it or not, for a number of months last year Canadian treasury bill rates were below U.S. treasury bill rates. It did not have much impact, because very few people buy treasury bills. However, there are differences from time to time and sometimes these differentials are wide, sometimes narrower. You are right, though, that traditionally Canadian rates have tended to be higher than American interest rates. I believe it is for a very good reason, that in most years the over-all current account balance in Canada of foreign exchange is negative—we may have a surplus of trade from time to time, but we have traditionally a very large and, I am afraid, a growing deficit on what we call invisible account.

The Chairman: Yes, going this year to a total which is very frightening.

Mr. Hockin: That is right. So that one can say that from this viewpoint alone we need to borrow funds to pay for that kind of deficit that we have if the exchange rate is not to move a very substantial distance. The sure way of attracting capital is to offer more for it than do others. So we must offer a premium of some type, which will vary depending upon how much money we need and many of these other factors which I have discussed in terms of psychology.

There may be times when an investor will be sensitive to a very narrow differential and it can be extremely narrow in the money market area where, of course, the same concern in relation to foreign investment and the danger of expropriation and what have you, does not exist. It can move to a differential as low as one-quarter or even one-eighth at times. This differential seems to be growing narrower, rather than wider unless there is a fear of a big movement in the exchange rate.

At the longer end of the market, where we traditionally need money on a regular basis, that differential is much wider. There, of course, the foreign investor knows that he is locked in for a longer period. Therefore these other considerations of Canadian attitudes, the markets and the rest, enter into his calculations and it requires a wider

differential to make him lock himself into Canadian investment for this longer period.

Another factor is that there have been occasions on which the inflow of long-term capital to Canada has been greater in volume than the deficit on the current account. In fact, we have had situations in which Canadians have imported long-term capital and exported short-term capital. There have been net foreign investments by Canadians in short-term financial assets abroad greater than those of foreigners in short-term assets in Canada. Therefore, of course, in those circumstances, the interest rate differential at the short end would reflect that situation.

The Chairman: Our remaining question would involve a very difficult and probably professional judgment from you. However, do you see the American capital market, in the light of the immediate or foreseeable economic situation, developing in such a way that they must return to the Interest Equalization Tax Act, or some similar mechanism, to retain capital in the United States? If so, and if we are no longer to have special status and are not exempted, what effect will this have on Canada?

Mr. Hockin: One cannot foresee what difficulties the United States might get itself into. My own reading of the attitudes of the American government, both its elected representatives and its officials, is that, by and large, they did not think that their experience with the Interest Equalization Tax Act and the other controls of investment abroad would encourage them to try it again. I think that they found it to be a difficult thing to administer and that it created all kinds of anomalies. Also, because of the type of financial transaction which I have described to you in relation to Canada really having its origins in movements of goods and services, it is very difficult to control purely capital transactions without being drawn down the road into trying to control the movements of goods and services also. It is a slippery slope and the United States was really getting very close to that. In my opinion they turned back because they could see where it would lead them and they did not like it.

Therefore, I think they would be inclined to resist controls of this nature as long as they could. In fact, the British have had fewer of these controls than one might have expected, given their problems. For the same reasons it is very difficult to really control capital movements completely, because the same effect can be brought about by what we call leads and lags. That is, exporters just holding the payments they receive abroad a few days longer abroad rather than repatriating them. This can have all kinds of capital movement effects, which are very difficult to control. If, of course, they did go down this road then, as I have suggested, I doubt that we would seek, or be granted, any kind of special treatment. Those Canadian issuers who have come to depend upon the New York market, in particular the provinces, would in my opinion find themselves at least temporarily having to scratch a little to raise the money they would need entirely elsewhere.

The Chairman: Or within Canada. Would this not force up Canadian interest rates?

Mr. Hockin: It would certainly deflect much of their borrowing requirements into Canada and, of course, depending upon monetary conditions at the time and the flow of savings, would create an additional demand, which has so far not been met because in fact they have been drawing it abroad up to this point. I am not saying

that it could not be done in time but, once again, it takes time for these transitions to work themselves out.

Senator Macnaughton: Would that be such a bad thing?

Mr. Hockin: We must look at it from two points of view. From the point of view of the issuer I must say there are degrees of exposure to foreign exchange repayment requirements on the part of some issuers, which I consider to be pretty heavy. It might be not a bad thing from their point of view if they did not have this much exposure to foreign exchange debt.

We must also consider it from the point of view of Canada as a whole. If Canada is to go on having a very large current account deficit, someone must be prepared to borrow and finance that deficit. It is not every Canadian entity that has the financial position to justify a substantial foreign debt or that has the entrée into foreign debt markets to permit them to raise in total enough to cover a substantial continuing current account deficit by Canada. You would run out of, as it were, potential borrowers and potential investors abroad. You cannot divorce this from the trade aspects.

Senator Macnaughton: I understand that Canadian banking operations in New York, for example, are highly profitable. I am not asking you for bank secrets, but they would not be there, year after year, would they, if they were not?

Mr. Hockin: It depends upon how one measures profitability. It may be that the benefits accrue within other operations of the bank because of other things that are provided to the bank by being in New York.

Senator Macnaughton: That was really a lead in to the fact that the United States federal reserve system presented Congress with proposed legislation to establish a national policy in the operation of foreign banks in the United States. Has anything further been done with that?

Mr. Hockin: I think that is still in the formative stage. I believe they are working out the details. They have been working on this for some years now in an effort to get a more complete fix on exactly what foreign banks do in the New York market. As you probably know, all foreign banks in New York operate in a rather specialized way. For example, Canadian banks have been very active in the call loan market in New York, financing a lot of dealer inventories and this kind of thing. They have been developing further areas of expertise as well.

There is another aspect of it, which is that for a currency such as the United States dollar, which is a reserve currency, inevitably there will be a lot of, as it were, liquid balances of other countries, some of them of course owned by official holders in the form of holdings of United States treasury bills and United States government securities, by their central banks or by their monetary authorities, but also owned by some commercial banks, which might hold them on behalf of monetary authorities, or just as a convenient place to hold their own liquidity.

The role of foreign banks in New York is rather different from the role of foreign banks in Canada, because the United States' dollar is a reserve currency and ours is not.

The Chairman: I have no further questions myself, and I have no one else on my list. We have timed it very nicely, because it is five minutes to eleven. I think we can break off your testimony, Mr. Hockin. In doing so, let me thank

you very much for coming. Secondly, may I echo the remarks of Senator Macnaughton, and later of Senator Bélisle, about the excellence of your opening presentation. You have made a most complicated subject lucid and clear for a complete layman like myself, which is quite an accomplishment. Thank you very much for your efforts in doing so.

Mr. Hocklin: May I once again thank you, honourable senators, for inviting me here. It is a great honour for me to be asked to come before you.

.....
[Later: By telephone connection to Washington (D.C.)]

The Chairman: We have a line through to Dr. Abshire, so I shall make contact with him. Dr. Abshire, this is Senator George van Roggen speaking. How do you do?

Dr. David Abshire, Chairman, Center for Strategic and International Studies, Washington, D.C.: Very fine.

The Chairman: Welcome to this first experiment of this committee in having this type of contact with a witness.

Dr. Abshire: I am delighted to be your first witness by experiment.

The Chairman: Unfortunately we have a fair amount of static on the line. I think it is because of the amplification of the telephone line for the ear pieces in the committee room, but we can hear you quite well.

Dr. Abshire: Good.

The Chairman: Dr. Abshire, for the record, may I welcome you as a witness before the committee. I would mention, for the information of the senators, that you have had exceptional experience in this area on which we would like to question you this morning, in that from 1970 to 1973 you were Assistant Secretary of State for Congressional Relations in the United States. You have now retired from government and are Chairman of the Georgetown University Center for Strategic and International Studies.

We have had a good deal of information before the committee over the past months on matters relating to our embassy in Washington and its function there. Several witnesses have touched on the question of the embassy's direct contacts with the Hill or with congressmen and senators, as opposed to their relationship with the executive.

On most occasions, the witnesses have been careful to point out the fact that the ambassador, of course, is accredited to the President and they have to be very careful not to abuse their privilege and status in Washington by dealing with the Congress in a way that would be offensive to the President or the executive. Possibly you could proceed with an opening statement, following which I will ask members of the committee to question you.

Dr. Abshire: I would be happy to do so, Mr. Chairman. I am delighted to have this opportunity of testifying, albeit by telephone, on this important issue your committee is studying.

I would first make some general comments on the importance of the U.S. Congress. In the three years that I was Assistant Secretary of State for Congressional Relations, from 1970 to the beginning of 1973, we were at the

peak of executive power. Since then we have moved dramatically to the peak of legislative power.

My doctorate is in American history and I know that we have had this type of thing occur at other times in American history; but never have we had such a dramatic shift within a limited period of time.

The ramifications of this shift from executive to Congressional ascendancy are considerable. I would like to indicate the principal reasons for this shift in considering the general subject of our interest today. First, there was the lengthy Vietnam conflict—

The Chairman: Dr. Abshire, I am sorry, but we are not hearing you properly. Are you hearing me?

Dr. Abshire: Yes, I can hear you very well.

The Chairman: Something has gone wrong. The technicians here are shaking their heads. Please hold the line. Dr. Abshire, I understand it is the telephone line and not the equipment. Perhaps we could call you back on another line.

Dr. Abshire: Can you hear me now?

The Chairman: No, we cannot hear you. Please hang up and we will call you back immediately.

[Later]

Dr. Abshire: Mr. Chairman, I made the point that power between the executive and legislative has dramatically shifted from 1970, when I became the Assistant Secretary of State for Congressional Relations, to 1975. We have moved through a period of maximum executive power in 1970 to maximum congressional power in 1975. This has been virtually unparalleled, except for a few periods in our past history. This shift of power holds deep significance in terms of American-Canadian relations and some of the issues that we are discussing today, because it does complicate the job of representation in Washington.

I want to make mention of some aspects of this shift of power that have to bear on the problems we are discussing today. First, this shift of power has, in fact, occurred due to both the Vietnam and Watergate experiences and has resulted in a Congressional unwillingness to defer to presidential leadership, as had been the practice most of the time during this century. Heretofore, to give you an example, when the President would call to the White House members of the Congress, those members when discussing domestic affairs would freely challenge the President on any issue, because they felt they would have as much expertise as he. However, in foreign policy matters they would seldom challenge, because they knew he commanded the diplomatic communications and they would generally take at face value what the President said.

This willingness to defer to the President in foreign policy matters has changed. This shift has been speeded by our own domestic recession and the state of our domestic economy, which has further intermixed domestic economics with foreign policy economics.

That observation leads me to my next point related to the shift of power from the President to the legislative. The shift has been brought about by the way the constitutional powers are delegated. Here I speak of the economic powers in the Constitution, as opposed to the politico-military powers in which the President has, as commander-in-chief and principal negotiator, extraordinary powers.

When we move to the field of economics, the Constitution has given extraordinary powers to the Congress in ways that the executive branch simply cannot get around. On politico-military issues, such as treaties, the executive, for example, has frequently used executive agreements. However, we find that the executive has no such ways around the Congress when dealing with the extraordinary powers given, particularly to the House Ways and Means Committee and to the Finance Committee. The Jackson-Vanik amendment to the trade bill is such an example.

So, these three implications are important as we proceed in our discussion on how this change in the balance of power in Washington affects the subject that we are discussing today. I wish to note that the issues that we discuss today have been further complicated by the diffusion of power which has occurred within our Congress. We have seen a shift of power to the Congress, but then we are seeing underneath that a vast diffusion of power within our Congress. I have already mentioned to you that the Finance Committee and the Ways and Means Committee, because the economic dimensions—foreign policy as compared to the political, military ones—have meant that those committees have achieved extraordinary power in general foreign relations. To put it bluntly, many foreign officers of many governments and many missions in Washington have been very slow to perceive the implications of this shift of power in this foreign affairs field to the committees dealing with economics.

Second, speaking of the 94th Congress, this decentralization of the leadership hierarchy that, of course, had previously occurred to a certain extent in the United States Senate and had dramatically occurred this last year in the 93th Congress as a whole is something that truly approached a revolution which gave enormous powers to the Democratic Caucus. Some committee chairmen were actually deposed.

This diffusion of power has great implications for our executive branch, because it makes it far more difficult for them in Congressional relations on Capitol Hill to know with whom to consult, with whom to negotiate in order to bring about coalitions which will support their efforts. That introduces an uncertainty, such as we have not known in congressional action for many, many years. It introduces the practice of amendments being added from the floor of the Congress without formal committee hearings. Just as this has implications for our executive branch, it has considerable implications for the subject we are discussing today. Already United States-Canadian relations are involved in a very complex situation because of the regional interaction of provincial and state relations. If there were already contacts due to that decentralization, they are now increasingly complex because of the decentralization of power in the Congress.

As we look ahead beyond the 1976 election, of course, there may be some change again. It may be that the pendulum and the switch of power to the Congress and the decentralization of power within the Congress may be at the maximum limit, and that it will swing back somewhat. However, I dare say that some of the implications of what has happened are with us permanently.

There are at work groups that are looking at congressional reform and how the Congress better organizes itself, and how the executive better organizes itself in the foreign affairs field. There is such a congressional commission, the Commission on the Organization of the Government for the Conduct of Foreign Policy, chaired by

former Ambassador Robert Murphy, of which I am a member. There are two senators on the commission, one of whom is Senator Mansfield; there are two members of the House of Representatives, one of whom is Congressman Zablocki; there are members appointed by both the President and the Congress, and we will report on Monday to the leadership of the Congress, and to the President on June 30. This is just one such effort to see ways in which both the executive and the Congress might better organize themselves in terms of their relationships with each other, and also in terms of their relationship in dealing with foreign economic policy. That policy is very divided within the Congress and within the executive branch, with national security policy, and other such issues that span many committees and span many departments of our government, and yet in some way do not get fully integrated in our decision-making process.

I move on from these general comments to some more specific ones. As to the interest that Canada has in maintaining good contacts with the Congress, obviously Canadians should have a maximum interest in such an effort. It should be a priority interest, because in Canadian-United States relations we are dealing with a world range of bilateral issues when our government is already involved in its multilateral approach. Therefore, it is very easy for the bilateral issues between our government and Canada not to receive the proper attention due them.

The implication of these bilateral issues is that your parliamentary exchange and your mission activity in Washington should, in my judgment, be more vigorous than that of any other government because of the close economic relations between our countries. I think there has been a great increase in such activities on the part of your mission here within the past two and a half years. I know your ambassador well; he has discussed these matters with me on a number of occasions, and this increase fortunately occurred before the dramatic shift between the executive and legislative branches and the diffusion of power in our Congress took place. Those challenges, however, will necessitate that the ambassador's successor be increasingly energetic in these activities.

I turn to the question of what should be the role of embassies in congressional relations, and what is the attitude of the State Department and the executive branch towards such activities. We know my first point: it is a long tradition in our government, as in any government, that the chief executive is the avenue of communications and diplomacy; that the ambassador is accredited to the executive branch. Secondly, I think that when an ambassador first arrives in Washington he calls on the Assistant Secretary of State to establish a relation with his office and to obtain his advice on proper relations with Congress. As a courtesy, if he stays in touch with that office, then I think he could proceed in very good conscience on a very vigorous program of contact with the Congress, which would be viewed in both a proper and a thoughtful light on the part of the executive branch.

Over the past eight years in Washington I have perceived only a few cases of foreign embassies where these bounds have been exceeded, and a sensitive ambassador, attuned to some of the delicate problems, can proceed in a way that will be helpful to his country and to both the executive and legislative branches.

One of the major problems of such an embassy in Washington is that the broad contacts, social and professional, with the Hill be just that, that they be broad. But it is also

essential that those contacts be focussed, because of the several hundred members of Congress; because of the many demands on the ambassador's staff and on the staff of the mission, it is essential that there be a certain degree of selectivity.

I have known some missions that have been extremely active and carefully focussed when given issues were emerging on the Hill which affected their economic relations, and those activities were extraordinarily helpful in enabling members of Congress to gain a better understanding of how these issues were viewed from abroad. I recall, for example, the Japanese mission when we were dealing with the Okinawa reversion and certain issues related to the textile agreement. I think the Japanese Embassy, over a period, had about all the members of the Ways and Means Committee one way or another to the embassy and in a very helpful manner that created mutual understanding.

The Rumanian Embassy did something on a smaller scale when the issue of 'The Most Favored Nation Agreement' first came up as a consideration with regard to Rumania. Both embassies recognized that the real power on those issues lay with the House Ways and Means Committee and the Senate Finance Committee. In those cases, the ambassador stayed in touch with the State Department, and it was mutually advantageous.

I have been speaking particularly of the role of the ambassador, but I must emphasize that the other members of his staff have a most important role. Most of the larger embassies in Washington have a specialist on the staff who has under his special purview congressional matters. You have a very able one at your mission here in Mr. Clark. I think his role is most important in achieving a proper focus, in identifying those members who would be particularly interested or who should be interested in these issues.

There is a great danger, in social and congressional functions and in interparliamentary encounters, simply to have the same faces, the same people—those members of Congress who, in a traditional and academic way, are interested in "foreign affairs." They are always available for these functions, but in some cases they are not the people who need to be the most involved. So someone on the mission staff must constantly identify, analyze and seek ways of interesting those members who should be interested but who may not be.

I have received a report on the recent parliamentary meeting in Quebec, and I understand that the meeting went very well. I know that you did have at least one member of the Ways and Means Committee. There may be others that I am not aware of. But again I would emphasize that at such meetings it is very important to have not just International Relations and Foreign Affairs committee members, but Ways and Means, Finance and Agriculture members, and last but not least, members of the various committees in our Congress which deal with energy.

As you know, our own Congress has been divided on this last subject. They have had their own jurisdictional disputes on energy. At one point, when the energy crisis first developed, we had over 40 committees and subcommittees dealing with this one issue. Since this is a major issue with Canada and the United States, I give this as one more area where it is most important to seek out and interest some of those members who a few years ago were not involved at all in something called foreign policy.

I must also note the importance of the new members of Congress. We have never before, in the House of Representatives, had a group of new members who arrived and immediately organized themselves, and, in certain areas, acted as a bloc. Some of the new members from safe districts may be there for a very long time. The traditions in our Congress have changed on new members. Some of the new members of the Senate who have been elected while in their younger thirties will be there for a very long time indeed, and those first years are formative years. They are most important ones.

Here again is an area where identification and special efforts are important indeed.

It is important not to focus exclusively on interparliamentary exchanges in terms of the role of parliamentarians. It is very important to widen the horizons and realize the need to involve members of Parliament, and your own ministers from Ottawa, in conferences and meetings that may be sponsored by institutions such as my own center or others in Washington. We recently, at the center, had a major conference that was chaired by Senator Humphrey of the Foreign Relations Committee and Senator Brock of the Finance Committee. We had members of Parliament present. It is most important that you have articulate members of Parliament, and also of your executive government, participating in such meetings which tend to have a large impact on the press, the academic community and the Congress.

Again, your embassy, I feel, has been very outward-looking in such endeavours. To conclude, I would say that the changes which have occurred in these various shifts of power, and diffusion of power, have complicated the ties that we are talking about today.

It is important, though, in this complicated situation, to develop focuses in key areas that will be most important.

We are dealing with a decentralized Congress, and we are dealing with a period of complicated executive legislative relations. Your ambassador, who will soon be leaving us, has done, in my judgment, an outstanding job in bringing an increased congressional dimension to the activities of the mission here. The staff has done a good job. You have had a very outstanding person on the mission staff in the field of energy in Mr. Chappell. He has been very much in demand at meetings in the field of energy. His appointment was an excellent one. He is well suited to the task.

Your arriving ambassador, I understand, is a distinguished economist. I think that is good. It is very fitting in terms of the shift which places foreign policy under the dominance of the economic dimension. The challenges will be greater in his tenure of duty than they were in the past. I am delighted that this very distinguished committee is looking into these very important issues and processes of government. I commend you for it. Now, gentlemen, I am available for questioning, our communication systems permitting.

The Chairman: Thank you, Dr. Abshire. Can you hear me?

Dr. Abshire: No.

The Chairman: I would ask you to hold on for 30 seconds, doctor. Members of the committee, we can do two things at this point. I can take the telephone, and you will

all be in a position to hear Dr. Abshire and what I say. I could relay any questions to him, if you would write them down. The alternative is for members of the committee, in turn—particularly Senator Macnaughton, who was going to lead off—to take the telephone. We would hear the questions, and we would hear through the ear piece the replies from Dr. Abshire. Other senators could then do the same thing. Does the committee think the latter suggestion might be the better one? I will explain the situation to Dr. Abshire. Do you have some questions, Senator Macnaughton?

Senator Macnaughton: After you, Mr. Chairman.

The Chairman: Dr. Abshire, thank you for that most thoughtful and thought-provoking opening statement. I am speaking to you on the telephone in the committee room, in front of the members of the committee. I apologize for the breakdown in communication. We live in a marvellous technological age, but, as a one-time political organizer, I can only say that this is typical of the reason why I never permit a meeting to go ahead with less than two complete loudspeaker systems. If the Prime Minister is involved, I never permit a meeting to be held with less than three sound systems.

What I plan to do now, Dr. Abshire, is to recognize some members of the committee who wish to ask you questions. Senator Macnaughton will commence the questioning.

Senator Macnaughton: First of all, Dr. Abshire, I wish to thank you for a wonderful opening statement. It was very stimulating. We do not have to agree with everything you have said, do we?

Dr. Abshire: No, you do not.

Senator Macnaughton: I do not think there is any doubt that Congress has assumed great new strength and influence and that Congress is paying close attention to issues with implications for Canada, such as the Mackenzie Valley pipeline, meat import restrictions, energy supplies, Autopact arrangements, and so forth.

We had Mr. Cadieux, who was until recently Canada's ambassador to the United States, before our committee, and being a man with a legal mind, he was very careful not to give offence to the White House or to the executive. The impression I got was that we should not indulge in lobbying and conveying information directly to members of Congress. What are your views on that?

Dr. Abshire: Obviously, Canada's mission in Washington should not trespass on the executive branch. I think there is a very legitimate, important and essential role for the mission in terms of its congressional contacts which in no way would trespass on the executive branch. The great problem that we face in our Congress with respect to Canadian relations is a lack of awareness of the dimensions involved. The greater the awareness the mission can bring about, the greater help it will be to the executive branch.

There are ways of doing things and there are ways of not doing things. It is a little difficult for me to respond to your question in general terms without the specifics, but I think Ambassador Cadieux no doubt wanted to make it clear that he did not want to get between the executive branch and Congress. There are many ways, many modes, many methods of having an important dialogue with members of Congress that will accomplish the mission we all talk about.

Senator Macnaughton: I might say in passing, Dr. Abshire, that about two weeks ago we held a meeting in the province of Quebec and, of course, we did step up our personal contacts and the conveying of information very materially. We have a long way to go in that respect. Do you agree with that?

Dr. Abshire: Indeed I do, and I think that much more needs to be done. As I think I said in my opening statement, the Canadian mission to Washington needs to be the most vigorous of any mission because of the stake Canada has in the United States and the stake that the United States has in Canada. I think what is needed are more meetings such as the one held in the Province of Quebec in an effort to reach out and try to involve people from financial committees, which can be so powerful and so determined. That is not easily done. I think that contacts need to be greatly stepped up, and I think they need to be with the people on these financial committees, whereas 10 years ago we might have thought in terms of the committees that deal with the politic-military issues.

Senator Macnaughton: You are not suggesting, are you, that we should flood Washington with visits from Canadian members of Parliament whose purpose would be to do a "lobbying job"? First of all, that might be resented by our ambassador to the United States and, secondly, in the long term it would be resented by American officials.

Dr. Abshire: I most certainly would not flood Washington with such visits. I think it is important to get articulate members of Parliament to Washington on needed occasions. I think it is important to establish meetings and conferences, as your mission in Washington does, and to be fully supportive in response to those to ensure that the Canadian point of view is put forth.

Senator Macnaughton: To put a practical case to you, what can we do about the flow of angry congressional threats of retaliation against Canadian energy export policies?

Dr. Abshire: I think the objective of those involved in exchange contacts should be to achieve a better mutual understanding. The meeting we had in the province of Quebec went a long way towards accomplishing that. I think what is needed is a broader base of members of our Congress to be involved.

Senator Macnaughton: That is true, but the criticism, of course, is that your people have not only Canada to consider, but the rest of the world, and they have only so many days in the year.

Dr. Abshire: That is right, and that is why I said in my opening statement that these objectives are easily talked about, but are difficult to bring about, especially when what is needed is the involvement of some very busy members of Congress.

Senator Macnaughton: One final question, Dr. Abshire. When a congressman or senator introduces a bill which is potentially harmful to the interests of Canada or Canadians, what, in your opinion, is the most effective approach for either Canada's ambassador to the United States or we, as parliamentarians, to take?

Dr. Abshire: The State Department, of course, has arrangements with Congress and contacts with the Hill, and it would give the official executive branch position with respect to the bill in question. Also, it may well be

that the State Department would want your ambassador to try to put forth the Canadian view with respect to an issue, and again this goes back to the general range of contacts between the parliamentarians of our two countries.

The Chairman: Dr. Abshire, I will now turn you over to Senator Cameron.

Senator Cameron: Dr. Abshire, I am a westerner, and, as such, I am particularly interested in the energy field. As you are aware, we have tremendous developments going on and even greater potential development in the North. These developments do now, and will in the future, involve large investments from the American capital market. In light of that, I am wondering whether it might not be useful to have a joint session of American-Canadian parliamentarians in the Arctic at some mutually convenient time, so that people who have never been there will get a first-hand impression not only of the size and scope but also of the difficulties in that tremendous development which is so important to both our countries.

Dr. Abshire: That is an excellent suggestion. It would serve a useful purpose. The difficulty would be the timing, particularly as we go into next year which is an election year and is the second year of the 94th Congress. Members of Congress will be increasingly busy and will be very much over-committed. So often these sessions have to be built around a recess period. So that is one difficulty. But in terms of the desirability of it, it is a thoughtful idea.

Senator Cameron: I think it would be useful if we could find a time that would be mutually convenient.

Dr. Abshire: Yes.

Senator Cameron: It could obviate certain misunderstandings between our two countries on the issue.

Dr. Abshire: Yes. It is an interesting suggestion and I will be happy to give it further thought and if I have further ideas I will communicate them to you personally. I do know the difficulties in these meetings outside of Washington.

Senator Cameron: That is right. We have our own problems in other respects, as well. I will turn you back to the chairman.

The Chairman: Thank you, Senator Cameron.

Dr. Abshire, unfortunately, because of the delay in starting, our time has become a little out of whack. Before closing, however, I should like to ask you one or two questions myself.

First, could you say whether countries other than Canada are more active than Canada in their congressional contacts?

Dr. Abshire: I would not be able to say, because I would not be in a position to say that I have had an overall view of the mission's activities.

I did mention two cases of embassies which were active in a proper way, which occurred while I was in the State Department. I had first-hand exposure, because those were pressing issues on the Hill, but I could not reach an overall judgment. But a judgment I do have is that in the past two years I feel that the Canadian mission here has become much more active in this area, and I strongly

commend them for that. I think that your new ambassador, who is a distinguished economist, will be very fitting for the time, and that economic background will be an asset with the Congress.

The Chairman: Yes. In your response to Senator Macnaughton's question concerning parliamentary contacts, I believe you used the expression that they should be greatly increased.

Dr. Abshire: May I say that the difficulty is, when I speak of increased contacts, that it can be taken in two ways. One is simply the stepping up of activity. The other is the increase in the breadth of the contacts. Because anyone in the field of congressional relations knows that it is a matter of being able to deal with the interesting and really key people in Congress on given issues. That is the difficulty in all parliamentary exchanges.

The Chairman: Yes.

Dr. Abshire: That means involving members who have not been involved before but who should be involved.

The Chairman: In all our questions and in your responses here we should presuppose that the accelerated contacts we are speaking about are, firstly, intelligently done and, secondly, tastefully done.

Dr. Abshire: That is right.

The Chairman: Within those guidelines, as you said a few minutes ago, there is a right way of doing things and a wrong way. But assuming that it is done the right way and assuming that it is done intelligently, would it be fair to say that the present shift in power in Washington makes it not only acceptable but mandatory for the Canadian mission to continue to accelerate its congressional contacts?

Dr. Abshire: I would thoroughly agree with that statement. That is a good summation. Due to changed circumstances, this is absolutely necessary.

The Chairman: Thank you. I am now going to turn you over to Senator Carter, Dr. Abshire.

Senator Carter: Dr. Abshire, I have just one question. I am sorry that I came to the meeting late and missed the earlier part of your statement, but I had to attend another meeting. From what I heard, obviously personal contacts between Canadian parliamentarians and members of Congress are most desirable. Now, I have been wondering, listening to your conversation with Senator Macnaughton, what your reaction would be to the promotion of contacts between chairmen of parliamentary committees and chairmen of congressional committees, for example, the chairman of our Foreign Affairs Committee with his counterpart on a congressional committee. You mentioned the Ways and Means Committee, but we do not have that. We have a committee on Banking, Trade and Commerce and a separate committee on National Finance. Would there be any practical benefits, do you think in arranging personal contacts between the chairmen and between the committees?

Dr. Abshire: I think the difficulty when we are dealing with chairmen of committees is that they have greater burdens on their time, and it is more difficult to have such meetings take place in non-central locations. I think what you indicate here is needed, and I suggest that there is a better chance of this happening in Ottawa and Washing-

ton than at some of the special parliamentary meetings which may necessitate special travel to get to them. At my Georgetown center we have large involvement with members of Congress and with congressional staff. The secret of our success is our central location because it is easier for senators and congressmen to be involved in our meetings and fit it in with their schedules. In other words we are not often going off to distant places. So I think that the kind of top level meetings you mention must take the question of location into consideration.

Senator Carter: I was not thinking so much of large meetings between committees, but personal contact between the chairmen and personal contact between the various members of committees on an individual basis.

Dr. Abshire: You mean your chairmen and our chairmen?

Senator Carter: That is right, yes.

Dr. Abshire: I understand that, and what I am suggesting is that you cannot assume that the general parliamentary exchange programs are going to take care of that, because they are not. I think that to try to get one or two of our committee chairmen up there and one or two of your committee chairmen down here for personal meetings and exchanges would be most important, but it would have to be tailor-made. That is my point. It has to be specially arranged and tailor-made.

Senator Carter: The only other idea that came to me is that we do meet your congressmen when we are members of delegations that meet in various countries—for example, the Interparliamentary Union holds a conference every year or two years, the NATO Association and various groupings like that—parliamentary groupings that take place in various countries. We send delegates and Congress sends delegates, and I wonder if we should not try to use these two as a means of establishing more personal contact with each other.

Dr. Abshire: I am very aware of those efforts, and I think they are excellent and the people involved in them are very good. I know many of them and they are very dedicated. The North Atlantic Assembly, the North Atlantic Treaty Organization and the IPU are magnificent activities.

My point is that some of those who have been members of our Ways and Means Committee and Finance Committee have not been those who traditionally would be involved in such activities. That is why what you said earlier is so important: These activities should be followed and used. In addition, we must try to get those on the economic side, who are not traditionally involved in such meetings, more involved through additional procedures and methods.

Senator Carter: Thank you, Dr. Abshire.

Dr. Abshire: Thank you, Senator Carter.

The Chairman: Dr. Abshire, George van Roggen speaking. At this point I would like to thank you for taking this time with us under these rather trying circumstances, and for being so helpful, not only in your opening statement but in response to our questions. I can say that, based on previous testimony we have heard, your testimony—I think other members of the committee would agree—

Hon. Senators: Hear, hear.

The Chairman: —has been most helpful in confirming the way we were starting to think insofar as the escalation of congressional contacts is concerned. You have certainly confirmed those preliminary indications, which may make it possible for us to come down with some recommendations, in this particular area, so far as our report is concerned.

Thank you very much.

Dr. Abshire: Thank you, Mr. Chairman. I have been delighted to have had this exchange with you. One of these days I look forward to meeting all of you gentlemen personally.

The Chairman: I hope we have that opportunity. Thank you again, doctor.

The committee adjourned.

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The Honourable GEORGE C. van ROGGEN, *Chairman*

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(Witnesses:—See Minutes of Proceedings)



THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

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Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk—(20).
Hastings	

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Tuesday, June 10, 1975.

(19)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3:03 p.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Barrow, Bélisle, Carter, Connolly (*Ottawa West*), Croll, Grosart, Lafond, Laird, Macnaughton, McElman and McNamara. (12)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canada Relations with the United States.

Witnesses:

From The Department of External Affairs:

Honourable Allan J. MacEachen,
Secretary of State for External Affairs;

Mr. Basil Robinson,
Undersecretary of State for External Affairs; and

Mr. Glen Shortliffe,
Director,
United States of America Division.

At 4:55 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, June 10, 1975

The Standing Senate Committee on Foreign Affairs met this day at 3 p.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, I would like, on your behalf, to welcome the Secretary of State for External Affairs before the committee today and to say what a pleasure it is for us to have you with us. Your predecessor, the Honourable Mitchell Sharp, was our opening witness when we commenced this study last year, and at that time he developed at some length the third option. We have heard a number of interesting and knowledgeable witnesses during the intervening months, and I hope that we will be able to produce a constructive and helpful report as a result of this phase of our hearings on the mechanisms between Canada and the United States.

Your evidence brings to a close this part of our study. Next we shall be turning to a study of Canada's trading relationships with the United States. In this connection I might announce to members of the committee that Mr. André Raynauld, the Chairman of the Economic Council of Canada, has agreed to appear before the committee on June 26. However, that is tentative and depends on the publication of the Economic Council's report on Canada's commercial policy, which it is anticipated will be published some time in June. If it is held up for any reason, it would be inappropriate for him to appear prior to its publication. However, subject to its being published, he will be here on June 26. We might think of him as our opening witness relative to the next phase of our study, trade.

Without further ado, subject only to saying that Mr. MacEachen has an important meeting at 5 o'clock, I would ask him now to commence with an opening statement, following which Senator Croll has kindly consented to lead off the questioning.

The Honourable Allan J. MacEachen, Secretary of State for External Affairs: Mr. Chairman and honourable senators, I am pleased to be here this afternoon as you near completion of this phase of the committee's work. May I mention that I am accompanied by the Under-Secretary of State for External Affairs, Mr. Basil Robinson, and by the Director of the United States Division in the Department of External Affairs, Mr. Glenn Shortliffe. Perhaps during the question period which will take place later I will take advantage of their presence to assist me in making replies.

As you mentioned, Mr. Chairman, It is just over one year since my colleague, the former Secretary of State for External Affairs, opened these hearings on Canada-United States relations with a discussion of his paper, *Options for the Future*.

At that time, Mr. Sharp predicted that your committee would be devoting a good deal of attention to the question of how the Canada-United States relationship should be managed in the period ahead. He pointed out that there exists a range of bilateral mechanisms, institutions or instruments on which we have relied and continue to rely.

Mr. Sharp told you that we had entered a new phase of relations with the United States, in which both countries are adjusting to new conditions abroad and at home. In both bilateral and multilateral matters he foretold of a period of adjustment over a wide range of issues, a period of negotiations that will require careful handling. He underlined the fact that there would be a continuing need to develop and implement our policies on their own merits in a manner best suited to Canadian needs.

We are indeed conducting our relations with the United States with a careful eye to Canadian interests and to the desirability of maintaining harmony, searching for mutually beneficial solutions, and achieving the most effective means of conducting our affairs.

Your committee has called witnesses from many areas to discuss the mechanisms of the relationship between our two countries: governmental instruments and contacts, quasi-governmental and bi-national bodies and non-governmental organizations. You have learned that considerable "machinery" is available, but not all is in use at any given time. You have looked into the expanding role of the provinces in the relationship, and you have heard witnesses on the growing importance of publicity and information programs in the United States.

Senator Croll: Mr. Chairman, I wonder if we might have a copy of the minister's remarks. I realize what you are up against in that the text has not been translated, but it would be helpful to have it in front of us.

The Chairman: If you do not object to the English text being distributed, Mr. Minister, it would be helpful to honourable senators if they could follow it.

Hon. Mr. MacEachen: I have no objection, Mr. Chairman.

The Chairman: We will have copies of the English text distributed.

Hon. Mr. MacEachen: The variety of views and approaches to the relationship reflected in this testimony attest to its complexity and the need for flexibility in its management. A summary conclusion must be that there is no single simple way of dealing with the issues in the Canada-U.S. relationship. We must consider all techniques in order to have a range of instruments to draw on in a rapidly changing situation.

In reviewing the testimony presented to the committee until now, certain thrusts concerning the management of

relations with the United States surface-themes on which I propose to comment to you this afternoon. I hope this will serve as a useful and appropriate wrap-up with which to conclude this series of hearings.

There are, among others, four primary themes which I see coming out of the testimony to date. The first concerns the coordination within the federal government of our overall policy towards all countries, and specifically toward the United States: What are the mechanisms for coordination, and how do they function?

A second theme follows immediately from this: What is the role of the provinces, the policies of which can and do affect the conduct of Canada's foreign relations?

Arising from these two themes is a third: How do we, and should we, conduct our contacts with the Government of the United States?

Finally, there is an important theme which I shall call "public diplomacy"—the role of the government in getting its message across, not only to the U.S. government, but also to the American people—businessmen, academics, and ordinary Americans who form the backbone of that nation.

I would like to give you some thoughts on each of these themes in turn.

Coordination within the federal government is a premise implicit in policy. It is the basic requirement if we are to present a convincing and consistent position, first to the provinces, and then to the United States, on foreign policy issues involving them. The collegial system of cabinet is well suited to the task of bringing together the many aspects of public policy with which the various branches of government are entrusted. Cabinet selects policies from among the several options presented to ministers and, in so doing, integrates or reconciles the various strands of advice emanating from government departments. In this respect, cabinet can be viewed as the supreme coordinating mechanism in the government.

The task of implementation of policy on a day-to-day basis falls to the responsible departments. The Privy Council Office is responsible for coordination of policy implementation, especially with the domestic sector; my department plays a central role with respect to coordination of policies which have international effects. As you know, in this modern complex world there is a wide range of so-called "domestic" subjects which have real implications for international affairs, but with the Canada-U.S. relationship there would appear to be no limit of essentially domestic matters that have implications for the vitally important bilateral relationship. To cite only one illustration, honourable senators will recall that the assisted establishment of a Michelin tire plant in Nova Scotia as an incentive to regional development was viewed by the U.S. Treasury as an export incentive.

Like any government today, the range of responsibilities facing it requires a division of labour, but issues as complex as those arising in our relations with the United States do not respect the more or less arbitrary division of responsibilities among departments. Thus, there exists both formal and informal interdepartmental organizations and consultative procedures to ensure that policies are carried out in a concerted and effective manner.

There is a further problem in that issues are not self-contained and can rarely be isolated from each other. Two apparently unrelated issues between Canada and the

United States usually are part of a larger picture: the totality of the relationship between the two countries. What happens in one area affects the total scene and this in turn influences attitudes as other projects become the focus of binational consideration. Mechanisms for coordination within the federal government are designed to cope with these two factors: that issues do not and should not respect solely departmental lines, and that all issues must be considered in the context of the total relationship and of the objectives to be achieved in this relationship. These mechanisms handle the questions of timing and tactics, and of reconciling points of view, of clarifying areas of responsibility which arise in the course of implementing policy.

An additional and a special kind of problem exists in respect of Canada-U.S. issues, and that is what I would call the "familiarity syndrome." Few people I know are intimately familiar with the situation in Thailand. If an issue were to arise with respect to that country, the advice of the responsible division in External Affairs would be sought without second thought. With issues involving the U.S., there is a natural tendency for those concerned to assume they have a feel for the total picture. After all, few Canadians admit to any mystery about the United States. But it really is not that simple, and the problem of coordination can be all the more difficult for the assumption. If the relationship is to be managed efficiently and effectively, it is essential that issues be understood in the context of what we call the "overview" of Canada-U.S. relations. Indeed, Canada-U.S. relations are themselves a part of our total foreign involvement and must be reconciled with it.

Official discussion, consultation and negotiations presuppose that we have done our homework; that the interface of issues has been thoroughly examined; that the background of U.S. affairs and attitudes and the likely impact of them has been taken into account and that timing and tactics have been carefully assessed. It is imperative, also, that all governmental initiatives vis-à-vis the U.S., especially in the form of statements, speeches and proposals, should be coordinated and at least have regard for the total context in which they are made and heard.

What I am speaking of is a constant monitoring of the relationship as a whole, so that there is always available to the specific program areas analysis and advice on the possible impact of actions they may be proposing, as well as discussion, definition and repetition of the general goals we seek and feel that we should and can achieve. A climate of general awareness is developed for the separate programs to recognize their part in the total context of Canada-United States relations. As I see it, a good deal of the challenge in this respect must be met by myself and my officials, and this is what we seek to do in our approach to Canada-United States relations.

This brings me to the second theme of my remarks, the role of the provinces in Canada-U.S. relations.

Here I should perhaps point out that in discussing the federal-provincial dimensions of our relations with the United States, I do not intend to deal with the many types of informal transnational activity that takes place between municipal and provincial state governments on both sides of the border. Such cooperation between neighbouring communities is a natural consequence of a mutual desire to solve common problems in the most practical and rapid manner possible. For example, cross-border commerce

would be seriously impaired if the numerous jurisdictions involved did not take practical measures to harmonize their highway and water transport regulations.

More generally, however, there is no doubt that in recent years the provinces have become increasingly interested and involved in Canada's overall relations with the United States. The reasons are well known. Improvements in communications and transportation have greatly increased contacts of all kinds with our neighbours to the South. Economic, social and cultural issues, many of which are of direct concern to the provinces, have become increasingly important elements of the international activities of all nations, and this is particularly so, of course, in so far as our relations with the United States are concerned. Furthermore, many important specific issues—for example, Canada-U.S. trade, the sale of oil to the United States, environmental cooperation—are of particular interest to the provinces. Specific decisions taken by the U.S. government in many diverse areas can also have important effects upon the policies of provincial governments. All of these factors underline the fact that it is essential for the federal government to take account of provincial interests in its overall policy vis-à-vis the United States.

The federal government's general policy with respect to the international interests and activities of the provinces is, of course, well known. This policy, as you know, was set forth in some detail in the two 1968 White Papers—"Federalism and International Relations" and "Federalism and International Conferences on Education." Essentially, this policy is that while the federal government is exclusively responsible for the conduct of Canada's international relations, the government seeks to carry out these relations within the framework of a national policy so as to satisfy the interests of the entire country and of all the provinces. Although the federal-provincial dimensions of Canada-U.S. relations has perhaps not received as much attention as other areas of our foreign policy, let me assure you that there is no lack of awareness within my department of the great importance of this aspect of our international activity.

Indeed, perhaps I could use the word "awareness" as best describing my department's attitude and response to the interests and needs of the provinces insofar as Canada-U.S.A. relations are concerned. I think it can be said without exaggeration that my department's U.S.A. Division, when considering any action involving the United States, automatically considers what the possible interests of the provinces in this action might be. This U.S.A. Division also works closely with the Federal-Provincial Coordination Division which deals exclusively with the federal-provincial aspects of our international relations.

My department is also in regular contact with provincial authorities concerning a multiplicity of matters and indeed it has become almost standard practice to consult the provinces with respect to matters such as the Canada-U.S.A. economic relationship, environmental cooperation, energy questions, and so on. Provincial officials are also increasingly participating on Canadian delegations discussing matters of common bilateral interest with the U.S. government. Examples are the Great Lakes Water Quality Agreement implementation, the Garrison Diversion, and various discussions relating to international bridges. As a normal service, furthermore, we assist provincial authorities in numerous ways with respect to the provision of information, the channelling of communications, the

organizing of visits of provincial officials to the United States and of U.S. officials to the provinces.

I should add that our personnel in the United States are also fully aware of the importance of the provincial dimension in the overall Canada-U.S. relationship. Ambassador Cadieux clearly demonstrated this when he appeared before you earlier this year. Ambassador Cadieux's successor, Ambassador-Designate Warren, is now visiting government and business authorities in the provinces prior to assuming his duties in Washington. This is a practice which is becoming increasingly common in the preparation of our ambassadors for their postings. Calls on provincial leaders and officials are also made by consuls-general representing Canada in the adjacent regions of provinces to ensure they are fully familiar with the interests and desires of provinces vis-à-vis the United States.

You will also recall that Ambassador Cadieux mentioned that a "provincial interests" officer has been designated in our Washington embassy. This senior officer provides a specific point of contact in Washington for provincial issues.

The "provincial interests" officer in our Washington embassy is also responsible for a new service which when in full operation will allow us to distribute to the provinces in a regular way information that is of particular interest to them. This "information flow", as it is most frequently designated, was initiated first of all to meet the specific needs of Ontario. The system, which now appears to be working satisfactorily insofar as that province is concerned, will shortly be expanded to Alberta and Quebec, which have also indicated a desire for this service. This information flow has been made available to all provinces and it is expected that all provinces will eventually take advantage of this offer.

These, then are some of the measures we are taking in order to ensure that the federal government takes account of the provincial dimension in the overall Canada-U.S.A. relationship. I hope you will agree that these measures are indicative of our awareness of provincial needs and interests, and of our desire to meet these needs and interests while ensuring that our relations with the United States continue to be carried out in a unified and coherent manner.

The third theme that seemed to emerge concerns the question: How do we conduct our contacts with the U.S. government? What are the mechanisms through which the two governments interact, and how do they work?

This committee has heard over the last year testimony on all types of intergovernmental contacts with the United States: summits, ministerial contacts, joint ministerial committees, advisory and regulatory commissions and boards, premiers and governors, official-level and diplomatic contacts, varying from formal and informal intergovernmental meetings to casual telephone conversations. You have also heard about other mechanisms. There is indeed a complex host of institutions with which to handle a complex relationship.

I think we can gain a better view of the complexity of Canada-United States relations when we compare these to our relations with any other nation. None, taken in the overall, in terms of physical contiguity, numbers and categories of people involved and the scope of areas of involvement—cultural, economic, security, et cetera—is as pervasive as our relationship with the United States. More

formal mechanisms, which work for our relations elsewhere, may not always be suited to our relations with the United States, where the number and variety of contacts is so much more vast and complex. And one must keep in mind the uncharted extent of people-to-people contacts, whether commercial, personal or official but outside of any governmental framework that contributes to the character of the relationship. There are labour unions, service clubs, religious associations, sports activities and so on which contribute to the formation of the relationship in their own way.

But to return to the charted waters, the present system of mechanisms has another feature of which I would like to make special mention: that despite its complexity, the system is, above all, flexible.

Let me comment on some of these mechanisms. Meetings between the heads of government of Canada and the United States are very useful, but by their nature not suited to the resolution of the great mass of issues which arise between our nations on a day-to-day and case-by-case basis. They do provide, however, the establishment of personal understanding and rapport between the two leaders and that sets the tone and thrust for discussions and negotiations at other levels. They are convened to build an essential and vitally important personal link between prime ministers and presidents and to resolve an occasional issue too difficult to settle through more routine channels. Foreign minister to foreign minister traditionally can provide for something of a negotiation atmosphere and I know you have heard how well my predecessor and his counterpart worked together. In my time, Secretary Kissinger and I have met on several occasions—most recently at the NATO meeting. But in this particular relationship, my Cabinet colleagues have more opportunity for easy and direct communications with their counterparts in Washington and they take advantage of it, to the benefit of the relationship.

In part because of these contacts, the joint ministerial committee meetings are less suited to today's demands of this relationship. We are looking forward to a joint ministerial meeting in Japan next week, but I feel it is questionable, given the present demands upon ministers, whether it is necessary, let alone possible, to hold joint ministerial committee meetings between Canada and the United States in the nineteen seventies. Trying to tie down the six or seven Cabinet officers on each side to a definite time is not easy, and the ease and practicality of one-on-one consultations reduces the demand for such meetings.

Among other forms of intergovernmental contact, one must count the inter-parliamentary delegation meetings, the most recent of which was held last month in Quebec City. The record of that meeting serves to illustrate the value of these encounters between legislators of both countries. There are also the meetings of premiers and governors—either individually, or in groups as will occur this weekend at St. Andrews by the Sea, when leaders of the Atlantic provinces and Quebec sit down with their counterparts from New England.

The binational advisory regulatory bodies such as the Permanent Joint Board on Defense, the International Joint Commission, or the International Boundary Commission allow for exchange of information and views in a most useful fashion, and their recommendations to governments are given close consideration.

The bulk of intergovernmental contact, however, takes place at the official level. As senators know, we have an

embassy in Washington (and 15 consular posts in the United States), to maintain close contact with the U.S. Government, to provide representation of our views and policies to the Administration and to provide information to the Congress and to the people of the United States. Senators have also been told of the telephone and transportation links between the two capitals which enable officials of all departments and agencies to maintain operating contacts with counterparts. Such contacts are obviously essential to maintain the free flow of goods and information, but they also point up the need for federal cooperation at home to ensure coordination of Canadian views being represented in Washington. My department works closely with other departments to ensure that there is unity in our approach.

Finally, I come to the fourth theme I wish to speak on: public diplomacy. This is a field which has been growing rapidly. It seeks to explain to the American people what Canada is, where it is going, and why. Governments react to changes in popular attitudes.

You have already heard testimony from Ambassador Cadieux and from information officials of my department on aspects of our public diplomacy mechanisms. They informed you of our fast-growing information programs in the United States—and, if I may remind you, drew to your attention that the size of our program is still very small relative to those of certain other nations.

You may recall Ambassador Cadieux's remarks concerning his extensive travel in the United States to meet newspaper editors and to give press conferences and television and radio interviews.

There is another aspect of this program I would like to speak to you about this afternoon which has not yet been discussed in this forum. In March of this year I visited New York and Boston to inform influential Americans of the meaning of our third option policy, first hand. I did not meet with federal government officials as such. However, during my time in the United States I carried on a dialogue with community leaders, business leaders, academics, media executives and editors. Visits of this kind do not make headlines, but we believe carry to influential Americans our concern with their relations with Canada, through a contribution to an informed background in key segments of various American communities. This visit, I feel confident, has softened some of the shadows that may have arisen due to misunderstandings over certain government policies.

I am not alone in doing so. Other members of the cabinet speak periodically in the United States on a variety of topics in which they have expertise. Recently, for example, the Secretary of State spoke to the American Publishers' Association; the Minister of State for Urban Affairs addressed a group in Cleveland; the Minister of Energy, Mines and Resources visited Minneapolis a short while ago to address the Mid West Gas Association. These presentations bring an awareness of Canada to every region of the United States. These visits direct the increasing attention of important Americans to Canadian affairs by bringing spokesmen for our policies to their door.

Public diplomacy is not, however, the exclusive domain of the federal government. Earlier I referred to the influence the provinces, our posts, and private sector groups can have on the relations between countries, and I think it important to take note of activities by organizations such as the Canadian Institute of International Affairs, the

Canadian Export Association, Canadian Clubs, which have active information programs that are designed not only to project Canadian information to Americans but also to acquaint Canadians with American points of view.

I hope these thoughts will to some extent provide a useful addition to the testimony already given to your committee. The mechanisms we now possess are flexible and effective when handled in a spirit of mutual respect and co-operation, and I believe that our experience has shown that the evolutionary process serves our purposes in coping with the more complex Canada-United States relations I foresee in the period ahead. At the very least, the existing machinery is itself quite sensitive to the demands that are put on it and will, as it has in the past, produce new solutions to new problems in binational communication. We may want to talk about some of these problems later.

I would like to close by mentioning my appreciation of the work being conducted by this committee, and of the quality of the witnesses you have called before you, at least up to the present, Mr. Chairman. It is important that we direct more attention to our relations with the U.S.A. in the days ahead, and the work of this committee should furnish us with the background needed if this increased attention is to be well spent. It has already, and will increasingly, cause us to re-examine processes in order to ensure their relevance or effectiveness, to improve or abandon them. Your evaluations will be studied with careful interest by all of us concerned with the Canada-United States relationship. I am also confident that we will all profit from your evaluations at the conclusion of your committee hearings.

The Chairman: Thank you, Mr. MacEachen, for those thoughtful and comprehensive opening remarks.

Just before I call on Senator Croll, I wonder if I might apologize to your Under-Secretary, who slipped into the room while I was distracted. I did not notice him joining us, or I would have welcomed him to the committee along with your other officials. I may say that I am doubly pleased to welcome Basil Robinson, since he and I went to school together. As I was mentioning to the minister some weeks ago, when he Mr. Robinson was appointed Under-Secretary, we have not seen each other for probably a quarter of a century. We are very pleased to have you here.

Mr. Basil Robinson, Under-Secretary of State for External Affairs: Thank you very much, Mr. Chairman. I am sorry to have been late.

Senator Croll: Mr. Minister, first let me just say, on a personal basis—and I am sure everyone will agree with me—that the training you got in the House of Commons in keeping peace in that often boisterous house, assured us when you took this job that peace in the world would automatically follow. We felt that this job would be easy compared to your former job. I also want to say to you that the Washington delegation of three representatives that came down here a couple of weeks ago made a very favourable impression on us. They knew what they were talking about, and we were left with the view that they were on top of their jobs. Now let us see whether you are on top of your job.

Mr. Minister, we have agreed that our relations with the United States are no longer automatic but complex. I think I state the view of the committee when I say that we

feel that our relationship with the United States should be a special one.

That is the desire of the people and it is for the government to bring it about.

Some of the evidence we have heard indicates that things are not going just as well as they should be. I appreciate that we now have energy problems, meat problems, environment problems and others which do not face others. However, I wonder, first, whether our approaches to the United States are co-ordinated sufficiently to make our point of view, considered to be an intelligent one, known. I notice on page 27 of your statement it reads: "My department works closely with other departments—" then you add: "—to ensure that there is unity in our approach." I thought that to be a good addition. We had some evidence, and it is our view, that our approach with respect to the meat situation was such that it seemed to have come from the Department of Agriculture, rather than your department. Our approach with respect to the gas situation in British Columbia seemed to come from other than your department. What is the real situation with respect to both those matters?

Hon. Mr. MacEachen: I have made, I think, my position quite clear in various statements to the Americans themselves, to the House of Commons and to the Canadian people, that the relationship itself is becoming more complex. There is no indication that it will become less complex and there will be issues arising in a whole range of fields, such as energy, agriculture, the environment and defence. All of these will generate very important issues involving Canada and the United States. I do not foresee that on every issue which arises Canadian interests and American interests will be identical. I believe that to be impossible. There are occasions when the interests of Canada are not precisely what are perceived by the United States to be their interests, and I believe that is inevitable. I do not think we can remove that, but I would hope—and not only hope, but the fact is that we attempt to ensure, with respect to the taking of such decisions by the government of Canada affecting the interests of the United States, that a process of consultation takes place between the two governments. First of all, we advise them as far in advance as possible of proposed Canadian decisions and will give them an opportunity to present their point of view. We will attempt, if possible, to harmonize and reconcile our differences. That is what I perceive to be a major aspect of influencing or managing the Canada-United States relationship.

Senator Carter: May I ask a supplementary at this point? The minister used the word "decision". You advise them in advance of your decision. Does that mean that you make a decision and then harmonize afterwards, or do you endeavour to explain your goals and get them to understand what you are trying to do, following which it is worked out jointly? It does not seem that consultation would be of much use if the decision were already made.

Hon. Mr. MacEachen: I agree. We foresee, in a number of issues with which we must deal, that maybe it would be a better way of dealing with decisions which must be taken and which would affect the interests of the United States. I agree with you that it is not conducive to harmonization to present the United States with a *fait accompli* unless it is absolutely unavoidable. That is, it ought to be the objective to consult, discuss and take into account the American point of view in reaching our decisions. It may

be that in some quarters that is regarded as inappropriate, but it is a fact that at the present time Canada can take decisions which will affect the United States very fundamentally, and they can take decisions which will affect us. In my opinion, we must consult and, where possible, work in harmony.

In that context, senator. I was not minister at the time and therefore I should not attempt to give a final judgment, but I understand that in the case of the beef quotas the action was deemed to be necessary. It had to be taken very quickly because of the fear that the cattle market in Canada would collapse. On the gas side, I think that in that case we did consult with the United States with respect to British Columbia and, indeed, I think we did succeed, if I recollect correctly, in having the decision of the government of British Columbia somewhat changed as a result of our consultations. Recently, in the case of the gas pricing which we announced, we did consult with the United States government before the decision. They were very complete consultations and we certainly took into account the effect the decision would have, not only on the administration and the Congress, but also on the American people, in that particular aspect.

I cannot guarantee that there will not be slip-ups, but I am telling you my point of view in terms of established policy in the department and the policy which must frequently be re-asserted in the cabinet because, as you know, there are all sorts of policy decisions coming forward from various departments and it is the job of the Secretary of State for External Affairs and the department to ensure that the United States relationship is taken into account in all these decisions. Oftentimes the place where that must be dealt with finally is in the cabinet itself.

Senator Croll: Mr. Minister, I agree with you that our positions cannot always be identical—no one would suggest that they should be, or we would never have anything to discuss—but one responsible man who appeared here made reference to the fact that in no circumstances should cheap public shots, quick and easy comment take place. Now, easy comment can come from you, we appreciate that, but those cheap shots that come from other departments do not help the situation at all and make it more difficult for you to overcome the problems. That certainly happened in the meat business, which in the end turned out rather badly. Are these not cleared with your department before they start pulling each other's hair?

Hon. Mr. MacEachen: I would hesitate to undertake the job of monitoring the comments of all my cabinet colleagues. That job would be pretty tough. Generally, statements that are made in a formal way with respect to Canada-U.S. relations are cleared through External Affairs.

It may be that remarks made spontaneously do not contribute very much to the relationship, but such remarks are made on both sides. One of the characteristics of a mature relationship is that we ought to be ready to accept that kind of public debate on both sides of the border without getting unduly upset. We should not allow spontaneous remarks by politicians, or other people, to disturb the nature of the relationship.

Personally, I am not terribly affected by speeches that are sometimes made, if they are intended to contribute to the debate that ought to take place about our relationship. The U.S. Ambassador to Canada has made a number of

speeches, and on a number of occasions I have not agreed with his analyses on a number of points. However, I never felt it was an impropriety on his part to address the whole question of Canada-U.S. relations in speeches made in Canada, or for him to talk about that relationship from his point of view.

Senator Croll: The one thing that did happen, Mr. Minister, is that his speeches were read in Canada.

You, yourself, have made speeches from time to time in the United States, as has the Honourable Mr. Macdonald, and in trying to follow you on such tours I have found that even in the Boston and New York newspapers there was very little of a report on those speeches. I am amazed at the amount of coverage given to an important minister of Canada visiting the United States.

My own feeling is that you are missing the boat in that you are not doing more work at the university level, not only in the East, but in the Midwest, and other places. It seems to me there is a great opportunity to do more work at the university level, and you ought to take advantage of it.

Hon. Mr. MacEachen: We did make a start in that direction during the last visit I made to the United States. I might point out, the purpose of that visit was not to reach a mass audience, although I did make two formal speeches, one in New York and one in Boston. I feel that the New York speech did get some attention. I had meetings, for example with the editorial boards of the *New York Times*, the *Christian Science Monitor*, and the *Boston Globe*. It was a very useful experience from my point of view and, I hope, from their points of view. I learned from them some of their apprehensions about what they perceive to be Canadian policy.

In my view, there was a real desire to understand what we meant by the third option. There was a real desire to understand whether Canada was deliberately drawing away from the United States; whether it could be counted on in the future to be a good neighbour. These were the kinds of questions that were basic to the conversations. They were more important than discussions on specific issues. Although the subject of energy came up, as did the subjects of *Time* and *Reader's Digest*, the main concern was on the basic orientation of Canadian foreign policy.

I think important work can be done at the university level. There was a joint seminar at Harvard and MIT on the subject of Canada-U.S. relations while I was in the United States, and we did have an extremely valuable discussion. However, there is a limit to the amount of time one can take to do that kind of work in the United States. It was my plan to go on a series of these visits, and we are proposing that we go to another area of the United States later this year.

I do agree with you that it is an important aspect in removing some of the misunderstandings and in developing a better understanding as to what Canada is trying to do through the implementation of the Third Option—what its objectives are, for example, in pursuing a contractual link with the European Economic Community. All of these issues are not fully understood in the United States.

Senator Croll: I am not sure that they are fully understood in Canada, Mr. Minister. The problem is that for a generation, or for as long as I can remember, the United States has looked upon Canada as the supplier of the raw

materials. The Americans felt we would always be there and would always have available whatever they might need. Things have changed to a very great extent. It seems to me that it would be important that someone from your department—and I realize you cannot be everywhere—or even half a dozen people from your department should be out, particularly at the university level, preaching that the world has changed and that we have changed with it.

I think you are in agreement that it should be done, but it has not been done as yet.

Hon. Mr. MacEachen: I think there is a great deal being done in that direction. For example, our Consul General in New York, Mr. Rankin, is an indefatigable and tireless exponent of Canadian policy. New York is a huge area to influence, and I think it is a formidable task, even though it is begun quite energetically.

Senator Croll: You told us that in approaching governments you would sometimes go to the top of the civil service level, or what we know as the civil service level, and sometimes to the ministerial level. Is there any formula or reason for that, or does it depend upon the issue?

Hon. Mr. MacEachen: There is a range of issues in play between Canada and the United States at the present time. I think I mentioned in my opening statement the summit between the President and the Prime Minister. Last December the Prime Minister and the President met for the first time, and it was an important meeting from the point of view of establishing personal contact as well as from the point of view of establishing a certain amount of trust and confidence in each other. That meeting took place. There was a number of international issues discussed and a number of bilateral issues discussed in a very general way to register their importance, but it would not be possible to discuss in detail any of the bilateral issues. My experience has been with Dr. Kissinger that it is not possible at these meetings to discuss in detail these bilateral issues. It is possible to highlight them, to assert the political importance of dealing with them, but the work and actual negotiation has to be done at the official level. I believe it is obvious in the case of Dr. Kissinger, with global interests, that that is inevitable, that he cannot deal with a host of bilateral issues in the way that would be possible for a foreign minister, in dealing with all these global responsibilities.

In saying that, I am not for a moment suggesting that he is not interested in Canada-U.S. relations. On the contrary, he is quite interested, but he has considerable faith in the health of the relationship and considerable confidence that most of these problems can be settled at the official level.

Senator Croll: From the evidence before us, I got the impression—and I think everybody knows this—that in Washington for every cause they have several lobbyists of one kind or another. The British do very well in the lobbying business, with a very large number of people, whatever the cost may be. It struck me that the budget for that sort of person-to-person approach with congressmen and others, is minimal in our case. Secondly, I feel that this kind of lobbying is rather looked down on.

In Washington today, where Congress is a real strength, I thought there would be approaches to these people, attempts to meet them, to go and see them, to blaze the trail. And when one has some particular point, there would be someone who would talk to him, who would go

up to the House to see him, who would invite him. Our people do a minimum of that. Why?

Hon. Mr. MacEachen: I will not go into the facts with the senator as to how much they do. I think they do some. I believe that in Washington the main job of the ambassador and his officers—not the exclusive job but the main job—is to deal with the Administration. It seems to me that in situations where the Administration and the Congress are taking different courses it is really a matter of some judgment to decide whether you concentrate your efforts on the Administration rather than upon the Congress. This is my own view, that it would be much better for influences on the Congress to come, at least to some extent, from members of Parliament, including senators, from Canada.

I am not sure I know the fully answer to that question, but there are certain instances where at the present time the Congress and the Administration are working in opposite directions, and it would be very easy for an ambassador, or our representatives in the United States, unless they were very careful, to get caught in this cross current. The basic job, it seems to me, has been, and must continue to be, with the Administration itself. I do not for a moment underestimate the importance of the congressional arm of government but, given the difficulty that can arise, I think it would have to be pursued very carefully.

Senator Croll: I rather agree with that, in present circumstances. But we have friends there who have been friends of ours for a very long time. To them it does not make any difference what it is.

Now, I have a final question.—

The Chairman: Before you leave that particular point, may I remind you of the minister's remarks on page 28, where he draws to your attention the size of our program and says it is still very small relative to that of other nations? That is similar to other evidence we have had before the committee.

Senator Croll: Yes, Mr. Chairman. That is something we will have to deal with in our report.

Senator McNamara: Our officials are accredited to the Administration, they are not accredited to Congress.

The Chairman: That is so.

Senator Croll: This is my final question. Could you think up something spectacular that we could do in this particular year in American history, when they are celebrating their bicentennial, to indicate that we have forgiven them for being—

Senator Grosart: Rebels?

Senator Croll: —for everything that happened and for being rebels long ago? We should want to do something that will attract the American public, besides sending them a beaver. Isn't this the opportunity for us to do something that will make the people in Louisiana take notice, as well as the people in California and in Wyoming?

Senator McElman: Well, we could close Head Harbour passage for a start.

Hon. Mr. MacEachen: I wish I could think of some dramatic, inexpensive gesture that we could make. We do

have a Canadian program, that has not been announced in detail yet, to help the United States celebrate this great event. I think it is a good idea. We should do something more, if we can come up with the right idea.

The Chairman: Speaking along those lines, I might say, Mr. Minister, that as chairman I have instructions from this committee to approach the Speakers of both our houses, to explore the possibility of an appropriate presentation, not from the government but through our Parliament, to their Congress. Subject to the reaction of the Speakers, there may be an approach to you in that same connection.

Senator Connolly: Mr. Chairman, I have not very much to add. The questions that Senator Croll asked were some that we wanted to get answers to, but there is one point to which I might allude. The Department of External Affairs, by and large, has emerged from these hearings as a very competent organization, alert to the problems between Canada and the United States and to the importance of maintaining the best possible relationships. I am sure of that. If there are improvements that have to be made, they are as anxious as anybody else, perhaps more so and should be more so, to bring these changes about.

I now come to Senator Croll's point. The problem that emerges is the dislocation of the good relationships, not by anything the minister does or does not do but by other agents and other agencies. I think there is between these two countries a sensitivity, because our two peoples are very much alike, they live in the same kind of political and social atmosphere.

Perhaps I could preface what I want to say by saying this. I understand that at the last meeting of the Canada-United States committee in Quebec, the American representatives were told that we were not going to cause trouble over the pullback from Vietnam. They had said that they hoped we would understand that in this particular time they would not want to have too much flak from their friends. That is a sensitive kind of statement, and I think it is a good one between two close friends. They did not have to make it, but it was easy for it to be made as between friends. Yet that seemed to slow down some of the rather boisterous kind of nationalistic talk in certain areas, which comes out pretty strong at times. I am not for a moment downgrading the right or the need of Canadians to stand up for their own interests, since it is terribly important not to let anybody walk over us; nor do I advocate submissiveness because of the size or the importance of the wealth of the American economy; but I just wonder whether there might be developed an awareness of the importance of this sensitivity in our relations with the United States.

Shortly after that meeting in Quebec, for example, a speech was made down in one of the middle states—an official speech, furthermore—to a group of publishers about *Time* and *Reader's Digest*. I thought it was a pretty pugnacious kind of speech, and there have been others of a similar kind. These are not things that you can monitor, Mr. Minister, or control, as you have said; but it seems to me that we have to realize in this country, because of the importance of these people to us from the point of view of defence, of the economy, and so many other ways, that we should be at least sensitive to their position; not so much, perhaps, in the decisions that we take, as in the way we approach the decisions, and the way in which we express ourselves.

I apologize for making a speech, but it takes a minute or two to develop the point. It is a question of sensitivity, primarily, I think.

Hon. Mr. MacEachen: Well, Mr. Chairman, in comment on what the senator has said let me say that I believe, personally, that in the aftermath of events in Indochina, American public opinion was very concerned and very sensitive, and may still be extremely conscious of actions that may be taken by other governments that could be interpreted as taking advantage of this situation. I am quite conscious of that.

I believe that the fact that, as a country, we did co-operate with the United States in the Vietnamese refugee situation, had a very helpful effect in the very field you mention, because the President, when he met the Prime Minister at the NATO summit, in their bilateral discussions, referred to two matters directly. I do not think I am going beyond what is proper in referring to them. First of all, he expressed his pleasure at the action that had been taken by Canada in renewing the NORAD agreement, and said how they had appreciated that. Secondly, he expressed his appreciation of Canada's readiness to take in these refugees at this particular time.

I quite agree that these gestures are very important.

Senator Croll: Does he know who his best customer is?

The Chairman: Senator Croll is alluding to previous presidents.

Senator Connolly: I do not know whether a program, or a policy, or some emanation from External Affairs, in its relations with the United States, or perhaps within Canada, could be set up to point this out, but, you know, you do not kick your friends in the teeth just to be belligerent, or just to say what a great outfit we are, in standing up to our own great position in the world. We do not have to do that with people who understand us as well, I am sure, as they understand us. This is a matter of developing public opinion, but where we can I think we should try to do it.

Senator Grosart: Mr. Minister, I wonder if you could tell us something about the organization of the Federal-Provincial Coordination Division. How many people are there? When was it established? What is it doing?

Hon. Mr. MacEachen: It is your baby, Glen.

Mr. G. S. Shortliffe, Director, United States of America Division, Department of External Affairs: My colleagues in federal-provincial coordination would not think so.

It has about ten officers, senator. It is organized as a single unit. It is divided so that there are officers who are responsible for liaising directly with some provinces, and in some cases groups of provinces. They back each other up. There is duplication so that if one man is on the road and travelling to a provincial capital or provincial city, there is somebody else on the desk, so to speak, in Ottawa, who can serve as a contact point. Their function is to keep directly in touch, primarily, with the various departments of intergovernmental affairs that have been set up in the provincial governments, to be aware of what their concerns are, to act as a contact point within External Affairs, and as necessary with the federal government, and of course, to keep the other divisions of External Affairs, such as the United States divisions, aware of provincial

problems, requests for information, and so on. They are a liaison division.

Senator Grosart: When were they established?

Mr. Shortliffe: Two or three years ago.

Senator Grosart: Who is the director?

Mr. Shortliffe: The director is Mr. R. H. G. Mitchell.

Senator Grosart: I wonder if we could have a list of the officers and the provinces with which they are normally associated. I think it would be very useful to have that.

The Chairman: Surely.

Senator Grosart: Is there a mechanism, or are there guidelines, by which this division is normally advised, in advance, of possible policy decisions, so that consultation can take place on a structured rather than a casual basis?

Mr. Shortliffe: Speaking with respect to issues in Canada-U.S. relations, senator, yes. If we see a problem coming up which would involve a provincial dimension, our first point of contact is to go to this division and say, "Look. There's going to be a problem here which will involve the provinces. Could you perhaps advise us with whom we should deal in the provinces and how we should deal with them? Can you help facilitate meetings and exchanges of correspondence?", and so on. They are brought into the picture very early on.

Senator Grosart: By and large, have the provinces, from their side, been able to develop regular opposite numbers?

Mr. Shortliffe: I cannot speak for all ten of them, senator, but in some provinces, yes. Ontario, for example, in the Department of Intergovernmental Affairs, has very definite opposite numbers. Quebec, Alberta, British Columbia and Nova Scotia have them too.

Senator Grosart: What is their relationship with this provincial interests officer in Washington? Perhaps I should ask you, first of all, whether that is an official title or just a description of some of his work.

Mr. Shortliffe: His diplomatic title is counsellor of the embassy.

Senator Grosart: Are those his only duties?

Mr. Shortliffe: Yes, sir.

Senator Grosart: Provincial interests.

Mr. Shortliffe: Yes, sir.

Senator Grosart: Does he operate directly with the Federal-Provincial Coordination Division?

Mr. Shortliffe: Yes, sir, he does.

Senator Grosart: We are interested in mechanisms here. What would the mechanism be?

Mr. Shortliffe: Well, he operates in two ways, sir. He works with the Federal-Provincial Coordination Division directly, in the sense of facilitating, again, requests from the provinces for information, on visits to Washington, or visits that may be going into the provinces from the United States. He also deals, to some extent, directly with the provincial governments. When provinces are sending groups of people who are perhaps on an information

gathering visit to Washington, he is their point of contact in the embassy. He is available to set up a program for them, to make their appointments, either with members of the Congress, the Administration or whatever it happens to be. So it is a triangular relationship.

Senator Grosart: In a matter of policy communication, would he be authorized to communicate directly with the provinces, or would it be through the Federal-Provincial Co-ordination Division?

Mr. Shortliffe: Primarily, sir, on a policy matter he would deal directly through the department; it is not necessarily under federal-provincial co-ordination.

Senator Grosart: May I address a question to the minister? Some of us were somewhat disturbed by an apparent inference by Ambassador Cadieux, when he was before us, that there was some official directive to ambassadors and, perhaps, high commissioners, to discourage as far as they could direct provincial contacts, in this case with states. Is there such a directive?

Hon. Mr. MacEachen: I have not heard of any such directive, nor seen one, nor have I authorized any such directive.

Mr. Robinson: I am not aware of any directive to that effect.

Senator Grosart: Well, perhaps it is just an impression from the remarks of Ambassador Cadieux. Is it the policy of the department to encourage the increase of provincial relationships, (a) with the states; and (b) with Washington?

Hon. Mr. MacEachen: In matters which are entirely local that is a matter for the state and the province involved. Insofar as contacts with Washington are concerned, we obviously facilitate the visits of provincial ministers and premiers. However, we do believe that the Department of External Affairs and the Government of Canada should be responsible for the arrangements. It should be apparent that we are speaking to the world and to the United States as a country with a national policy and do not appear to have fragmented approaches to the United States. I do not believe that has been touched upon, but probably it is also one of the challenges of the administration of Canadian foreign policy with respect to the United States, that we do appear to have a single policy administered on behalf of the whole nation.

Senator Grosart: Of course, it would be wonderful if we had, but we do not, so is there much sense in pretending that we have?

Hon. Mr. MacEachen: In my opinion we must attempt, for example when we speak to the United States as a country, to present a single policy.

Senator Grosart: Have we protested to the United States a direct contact between a province and Washington, or a direct province-to-state contact? Have we ever said that we wished they would not continue to deal with these people in this manner and they should deal with federal authorities?

Hon. Mr. MacEachen: I am not aware of any such protest, senator. I have never been involved in any such protest. I think we would probably handle it a little differently if it were necessary to do something in such a case, but I am not aware of any protest on any subject.

Senator Grosart: Are there any guidelines or instructions respecting a statement in the United States by a Canadian minister, other than yourself?

Hon. Mr. MacEachen: No.

Senator Grosart: A cabinet minister is not required to clear with cabinet a statement he might make somewhere in the United States, or with you or your department?

Hon. Mr. MacEachen: I do not believe there is any firm guideline, or requirement, senator, that a minister speaking in the United States would be asked to submit his speech as a matter of necessity to the Minister of External Affairs, or to the department. I know that in many cases there is a good deal of consultation between officials in such departments and the Department of External Affairs relating to speeches. We certainly do attempt as a matter of course to keep informed through our consuls or embassies, or the departments of government in Ottawa as to the movements of ministers, and mainly ministers in the United States. We are not doing it as a security service, or as "big brother". However, we feel that we ought to be informed as to where they intend to go, in order that we may assess the result, give advice and have some influence on the line that might be taken. We do that as a matter of course, but there is no strict requirement that they must present speeches to us. In my opinion it would be difficult to administer and probably offensive to other ministers, if they were asked to submit their words for censorship to me or to my department.

Senator Macnaughton: I just suggested that I wonder if Eugene Whelan submitted his speech.

Hon. Mr. MacEachen: He is much loved in the United States and we would not wish to stop him.

Senator Grosart: A final question, Mr. Chairman. I find a great amount of vagueness relating to this third option of which we so often speak. Could you tell us if there are any specific objectives of the option? For example, with respect to trade, let us assume 70 per cent of our exports go to the United States, are we going to say that in such-and-such a year it will be 65 per cent and in another year reduced to 60 per cent?

Hon. Mr. MacEachen: No, senator, we have not set any such targets or made any such proposals. You have asked what the specific objectives are of the third option. I can only mention two ways in which currently the third option is being pursued. One, of course, is through the efforts we are making to establish what has been described as a contractual link with the European Economic Community. That is obviously an aspect of the thrust to diversify Canadian foreign relations. That is one specific objective.

Senator Grosart: And to diversify foreign trade in the direction of the European market?

Hon. Mr. MacEachen: Well, I think that obviously implies increasing trade. The presentational problem is very important, that from the point of view of the United States we have no intention of declaring that we must take 10 per cent of our trade from the United States and transfer it to Europe. We presume that in a growth situation, as trade grows we can improve and expand our trade with the European Community and with Japan. So that is a specific objective of the third option, to increase our links with the European Community. Similarly, next week a ministerial committee, as I mentioned in my statement,

will be going to Japan. That is not a new event, but certainly it is a more focused effort in the light of our pursuit of deeper and broader relations with Japan as a country. That is another aspect of the third option. As you know, the European Economic Commission has recommended to the Council of Ministers that it be authorized to engage in negotiations with Canada to establish a framework agreement between the Community and Canada which would involve a number of points, but especially trade and industrial coordination and consultation. That is a major objective of Canadian foreign policy at the present time in pursuing the third option.

Senator Grosart: I am afraid I still do not understand it. I think the majority of Canadians are happy and hope that the Americans will continue taking 70 per cent of our exports. If that is so, then all we are talking about is diversifying within the other 30 per cent. I do not see that that is an option, unless we are prepared to say that we do not want 70 per cent of our exports going to the United States.

Hon. Mr. MacEachen: I think that implies a static view of the world. The world is changing, and we hope the European Economic Community will evolve and we will evolve with it, and grow with it. I do not look at this evolution as a transfer from one country to another at a particular instant of our trade, and this is really what would worry the United States.

Are we saying to the United States, through the Third Option, that we are pulling away from the United States? Are we replacing or supplanting our present relations with the United States? Of course, our answer—and this is the answer of the government—is that we are not attempting to supplant our relations with the United States; rather, we are attempting to develop additional relationships with other countries and, as a result, diversify, and, I hope, also strengthen Canada.

Just by way of a passing comment, I am wondering whether your committee has given any thought as to how this image of the future could be best projected to the United States. I am sure consideration has been given to that.

Senator Grosart: A final comment, Mr. Chairman. Is there not somewhat of an anomaly in the statement that the "days of a special relationship with the United States are over"—and I believe that was your statement—and the contrary statement that "we are now going to develop a special relationship with Europe"? There seems to be an anomaly in those two statements.

What do we mean? There are broad terms of policy, but there are no specifics. We do not know where we are going with this third option; or, at least, I do not know where we are going with this third option.

Hon. Mr. MacEachen: You are asking what the specific objectives are. I have given you two, both of which are major. Certainly, the effort to establish a link with Europe is a major effort.

We have never described it as a special relationship with Europe, or at least I have not. I did say it was the end of our special relationship with the United States. That is one of those expressions one uses that, in hindsight, one would like to rephrase. I have been trying ever since to explain exactly what I meant by "the end of the special relationship."

Senator Grosart: That answers my question completely.

The Chairman: Senator Grosart, while you were quizzing the minister on those particular points—

Senator Grosart: Did you say “twitting”?

The Chairman: No, quizzing—I was looking at a quotation I took from one of the minister's statements for a speech I gave recently. He had used the words, “Our efforts to expand our links with Europe and Japan are aimed at supplementing, not supplanting, our trade with the United States.”

I think most of us on this committee, Mr. Minister, and the majority of Canadians, would applaud the distinction you make in the use of the word “supplement” as opposed to “supplant.” I think a lot of us have difficulty with the word “diversity” because it has its root in the word “divert,” and there is a tendency in the word “divert” to indicate that we want to take something away from our relationship with the United States. Therefore, the use of that word may be unfortunate in the circumstances.

Hon. Mr. MacEachen: I must say, one of the impressions I drew from my week in the United States was the importance of words in attempting to explain this particular third option. I found certain words were not very useful in making the explanation of a reality.

Senator Croll: The inference is the Third World, which is not a good one.

Senator Carter: A supplementary, Mr. Chairman. Isn't the term “third option” misleading?

The Chairman: Senator Carter, our concern at this moment is one of time. We have about seven or eight minutes before the minister has to leave in order to attend a very important meeting. If we get into a debate on the term “third option” we might be here for another hour, and I do have on my list Senator Laird, Senator Macnaughton and yourself. I wonder if I can, in the circumstances, call on Senator Laird.

Senator Laird: Having in mind the shortness of time and not wanting to appear repetitious, I do think that Senator Croll raised a very fundamental point, followed up by Senator Connolly. I am going to preface my question with the following proposition: if a prominent Canadian, whether he is in an official position or not, wants to get the maximum amount of publicity in the U.S. media, all he has to do is give an anti-U.S. speech. You can develop all the mechanisms, both formal and informal, that you want for bettering relations between Canada and the United States, but I suggest, with respect, that the mechanisms could be thrown out of gear by a speech made by some prominent Canadian, not necessarily an individual in an official position, but a well-known public figure, which is downright anti-U.S. in its sentiment.

Can you think of any practical way to deal with this situation, such as, for example, a quick follow-up, or a correction issued by yourself in an official way stating that the remarks of the offending speaker do not constitute Canadian policy? Is that practical?

Senator Grosart: You would have a cabinet crisis.

Senator Laird: No, I am speaking of somebody outside the cabinet making such a statement. He might have been in the cabinet at one time. If such an individual makes an

anti-American speech, it gets maximum publicity in the U.S. media, whereas you can go down to Boston or New York and get, as has been pointed out, little publicity.

Such a statement by a prominent individual could throw the mechanisms aimed at preserving cordial relations right out of gear. Is there a practical way of meeting that situation?

Hon. Mr. MacEachen: I do not think there is a practical way, senator. To be honest with you, I think one could consider saying, “Well, these views are not the views of the Canadian government, or are not shared by the majority of the people of Canada.” However, I believe that in dealing with the United States, we are dealing with a very open society, and one which understands very well that there are differences of opinion within Canada.

What I think the leaders in United States, whether in government, the media or in business, are mainly concerned with knowing is the policy of the Government of Canada.

Senator Laird: Yes, but popular opinion does affect it.

Hon. Mr. MacEachen: I realize that, but I think it would be very difficult to have an effective way of dealing with an individual who makes a speech on his own aimed at taking a crack at the United States.

Senator Croll: But the Americans deal with it every day by having an unofficial spokesman, who comes right out and makes a statement, on behalf of anybody at all, and says “T'ain't so,” and the people know then.

Hon. Mr. MacEachen: I certainly will look into this, to consider whether we could do something. I am sure I have not got much confidence in it, that I could try anything like ordering the press to say what so-and-so said is not government policy. They might come once, but I doubt if they would come a second time.

Senator McElman: Does that not also operate in the other direction, that when these kinds of statements are made about pipelines and so on, nobody bothers to come out and contradict those statements in the United States, because they consider it was just politicians shooting off. So it applies to politicians on both sides of the border.

Hon. Mr. MacEachen: Yes. There have been some strong statements made about the United States that we know do not represent the policy of the government. On that aspect, it is a sort of people-to-people relationship, and in some way the people themselves have to sift through all this and reach some conclusions, in our type of country.

Senator Carter: Could I suggest to the minister that he get Gordon Sinclair on to this? Gordon made a hit down there.

The Chairman: I feel that if we put him on, you may have somebody else saying we must have Mel Hurtig on also.

Senator Macnaughton: Mr. Chairman, at the risk of boring senators, perhaps it is too good an opportunity to miss, with the minister here and with the statement in front of me, because one can always pinpoint something when it is in a statement. Really my question is, in view of the fact that the minister is here and having come from the east, I want to say I never understood this Michelin tire thing. I wonder if he could explain it clearly. He said:

Honourable senators will recall that the assisted establishment of a Michelin tire plant in Nova Scotia as an incentive to regional development was viewed by the U.S. Treasury as an export incentive.

There were many people in the United States Treasury who were upset, and a large section of the business community, at the way it was done. What is the explanation? I have never been able to understand that.

Hon. Mr. MacEachen: My recollection is that under the provision of the incentives law with respect to regional economic expansion we did provide some form of grant to the Michelin plant—as we do to various plants located in designated areas or areas of slow growth. It was purely an effort to assist Michelin to locate at two points in Nova Scotia, in Pictou County and in Bridgewater.

You will understand that these incentive grants are calculated upon there being a certain percentage of capital, and so on. This is what I understand was made available to Michelin—as we do to many other plants in various other parts of Canada. But, presumably, because the product of the plant was destined for the United States and would—presumably, because it is an excellent product—be in competition with tires down there, it was regarded as a way of penetrating the American market. Therefore it caused some difficulty. We took the view—and I think we were right—that the sole objective of that policy was to assist the location of industry in a slow growth area in Canada.

Senator Croll: Didn't the Americans say that "This plant would have come over here, except for the incentive you offered?" I think that the Americans wanted the plant.

The Chairman: My recollection quite clearly is along the lines of the minister, that the plant was designed to produce "X" number of thousands of tires to carter to the American market, and it was specifically designed to provide for two-thirds or 75 per cent of its production being sent to the United States. It was felt that by giving it a major incentive you would get in the whole area.

Senator Croll: And the Canadians came over with a better deal and they said this was a substantial incentive, as the communist countries do, by putting in a certain amount of capital.

The Chairman: But that would have given them no cause for complaint. We can give any amount of incentive to any part of Canada without any other nation having any cause for complaint. But the cause of their complaint was that the product of that plant was going into the United States market.

Senator McElman: Mr. Chairman, may I correct the record there? The competition was not between Canada and the United States, but within Canada.

Senator Macnaughton: I still have not got the answer. As you know, there was a well established tire business in Canada, with three or four other major companies; and here you import something that is new, with no history. If it was to help local industry, there is some argument there, but it was extremely unfair to the other competing Canadian companies who have been here for perhaps the last 50 years.

Hon. Mr. MacEachen: That is a different point.

The Chairman: Yes, it is a different point.

Senator Macnaughton: Whether it is or not, it is a fact of life—but I see we are not going to clear it up today.

Now, could I jump into a theoretical point—that is, the changed role of the Department of External Affairs? It seems to me that over the last few years people have been chipping away at the inherent power it had. This is the trend. Energy, for example, used to be one of the great problems, and trade, and the environmental department. New departments are being set up, taking away little bits and pieces from the External Affairs Department. With complex society, perhaps that has to take place, but the role of External Affairs, outside of co-ordinating foreign policy, seems to be changing radically, vis-à-vis energy, trade, environment, fisheries, forests and all the rest of it.

I should say I was also impressed with Senator Croll's idea, which is not new but he expressed it, that something should be done about our relationship in the future with the United States. Perhaps that relationship can be expanded and increased, and perhaps some of the complex difficulties can be relieved, on a people-to-people basis. For example, every time you go down to Washington you are approached by foundations, colleges and clubs to come and explain the Canadian view, to explain what Canada is. They are thirsting for knowledge. If you will, they would put you into conferences to be held at one university or another, whether in the eastern or the western part of the United States.

In other words, it seems to me that External Affairs, staffed as it is with very intelligent, capable people—and we all have experience of the expert advice that we receive—should step out of its shell. You could have a forum of qualified, trained speakers. I know the difficulties—of having juniors spouting off on foreign affairs. But it does not have to be that. You could educate members of the House of Commons and of the Senate who could carry the ball. You could go into the universities and select the good debaters there. You could also do almost a sales job for your country, under guidance and assistance and a certain amount of direction, which your department can do. That would be a very valuable function. For example, we get very frequently—I do not say once a month—a request: "Send us someone down to this political affairs forum, to explain Canada and all the rest of it." That is a function you could very easily step into and take over. It is a natural thing for you to do with your qualified personnel. However, this rises and falls like the stock market: today you have a demand for a thousand speakers, and for the next five years no one wants to hear one.

My third point, which I would conclude quickly, is about the bicentennial celebrations. It seems to me that we have a great opportunity to show our affection for and appreciation of our friends to the south, and that they in turn would react very favourably to it. It is not buttering them up. They are a great nation, they have done a great deal in 200 years, and it seems to me that this is the time, after Watergate and the other sad incidents, that we should come to their aid and assistance by saying, "You have made a great contribution, and this is just the beginning." You probably have this in view, but it seems to me that it should be a major effort that should be undertaken and led and encouraged by your department. I am sorry I have not asked more questions, instead of doing all the talking.

Hon. Mr. MacEachen: We do have a program in preparation to acknowledge the contributions that have been achieved in the years since the United States became a

political entity. I hope that the various elements of that program will underline the point of view that you have mentioned, senator, that we do regard the United States as our best friend and closest neighbour, that it is not only a feeling that is evidenced in the minds and the hearts of the Canadian people but also a policy that is being pursued by the Government of Canada. We will do our utmost in that program to convey that message.

Senator Croll: One question. Has our Prime Minister ever addressed their Congress?

The Chairman: In joint session? I could not say.

Hon. Mr. MacEachen: Not to my knowledge.

Senator Croll: I cannot recall.

The Chairman: Honourable senators, the minister having been kind enough to come here today, I want to reciprocate by fulfilling my promise that he would be able to leave by 5 o'clock.

Just before you do go, however, Mr. Minister, let me thank you on behalf of all members of the committee for coming here this afternoon and dealing so frankly with us. I hope that our report will be of some assistance to you and your department, and, if necessary, provide you with some ammunition for use with your confreres.

Hon. Mr. MacEachen: Thank you very much, Mr. Chairman and gentlemen.

The committee adjourned.



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Government
Publications



FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 17

WEDNESDAY, JUNE 25, 1975

Sixteenth Proceedings Respecting:
Canadian Relations with the United States

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk
Hastings	

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 6, 1974:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Wednesday June 25, 1975.

(20)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.08 p.m. this day.

Present: The Honourable Senators van Roggen, (*Chairman*), Barrow, Cameron, Carter, Connolly, Lafond, Laird, McNamara, Rowe and Yuzyk. (10)

Present but not of the Committee: The Honourable Senator Benidickson.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witness: Ambassador Rodney De C. Grey, Head of Canadian Delegation to the GATT (General Agreement on Tariffs and Trade).

At 5.25 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, June 25, 1975

The Standing Senate Committee on Foreign Affairs met this day at 3 p. m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, before introducing our guest today, I call your attention to a memorandum Mr. Dobell sent to all members of the committee. It refers to the Prime Minister's press conference in Rome on March 7, when he quoted quite extensively from a report of this committee of July 1973, about the distinction between a preferential trading agreement between the European Economic Community, which is not very feasible in our judgment, and a comprehensive economic agreement with the Community, such as proposed to the individual nations making up the Community, which we did recommend. The Prime Minister made it quite clear that was the course they were following, and he referred to our report.

Senator Connolly: And quoted it.

The Chairman: He quoted it at length in support of the government's position. I hope we can be as successful in producing a report on the hearings that we have held this year.

It gives me great pleasure to welcome Ambassador Rodney Grey, head of the Canadian delegation to the multilateral trade negotiations at Geneva, being held under the auspices of GATT. I understand that this is known as the Tokyo Round, following the earlier round known as the Kennedy Round. May we wish you every success in your most important work, ambassador. We are very fortunate the ambassador was able to give us some time this afternoon in the midst of a very rushed and tightly scheduled trip to Canada to consult with government officials and provincial deputy ministers.

Mr. Grey was before this committee once before, and you may recall the evidence of Mr. Bryce when he reminded us of Mr. Grey's pioneering work with particular reference to dumping. Mr. Grey, if you will proceed with an opening statement, Senator McNamara has kindly agreed to lead off the questioning.

Mr. Rodney De C. Grey, Head of the Canadian Delegation to the Multilateral Trade Negotiations: Mr. Chairman, honourable senators, I will be guided in my opening remarks by the questions that were conveyed to me by Mr. Dobell, but perhaps I should make a couple of disclaimers first. They are the usual bureaucratic ones. Although I am employed by the Department of External Affairs, this is a purely personal set of observations I am going to make. I have not been guided by them as to what I might say, although I am not unmindful of the fact that I am still employed by them. Secondly, I would like to emphasize

that what I have to say about how one goes about conducting Canada-U.S. relations in resolving issues and in trying to deal with disputes is really based on experience in what some might think a narrow area—that is, the area of commercial policy. I have dealt at times with things like aid and defence policies, but I have not sufficient experience in that to what to say anything of any importance on it.

One of the questions put to me was: What are the advantages of taking what is a bilateral issue and trying to deal with it in a multilateral form, such as the regular, ongoing sessions of GATT, or a conference such as the Kennedy Round or the Tokyo Round? The advantages seem to me to be really simple and of very great importance. If you are dealing with a dispute and you are going to be in the ring with someone who is ten times bigger than you are, it is nice to have some friends and allies around. It really is as simple as that.

To put it in a more dignified manner, say, we have a dispute on a matter, such as, one in which we have taken emergency action against particular imports from the United States and what we have done seems to create problems for the United States, it is an issue which, from the beginning, is multilateralized because our obligation to them and their rights are set up in a multilateral instrument—that is, the GATT. So our discussions with them are going to be within the framework of the rights and obligations set out in the relevant GATT provisions. Even when we are talking bilaterally there is a kind of multilateral umbrella.

If we move it to Geneva, for instance, as the Americans did when we imposed restrictions on the importation of potatoes, then there are going to be other people in the room. Whether we do so depends very much on the nature of the issue—on the politics of the issue, to be quite frank: Who has the particular interests that are being affected? What are the interests of other countries? Are we better off, to deal with that sort of issue, to take it into Geneva or not?

That leads me to the second question Mr. Dobell conveyed to me: What are the disadvantages of trying to multilateralize a bilateral dispute? I think that in dealing with the United States the main disadvantage may be that if we were the complainant, then we must face the fact that large countries do not like being pilloried by a lot of small countries, and they feel that in a sense you are getting the majority of small countries, whose actual interest may be rather peripheral, to gang up on them. One has to be very careful to avoid giving that impression. If you are the complainant, there are certain advantages. However, you may win that round, but you may generate quite a lot of ill will.

That leads me to what I regard as a more important question that Mr. Dobell passed on to me: How do you

choose which issues to take into the multilateral form? As my remarks have already made clear, over a wide range of trade issues one is operating under the cover of an international multilateral instrument known as GATT. That is the trade agreement between Canada and the United States. So that even when we are talking bilaterally, we are talking within a set of multilateral rights and obligations, and there is always open the possibility, and it is always a factor in the discussion, that it can be moved from Washington or Ottawa to Geneva and discussed with a panel, a group of experts, the council or whatever is the appropriate GATT body.

There are a number of factors that one could list that have to be examined when you are deciding, does this particular dispute, whatever it might be, lend itself to being multilateralized? First of all, is there multilateral agreement which covers the particular issue? Many times there is not. In the field of commercial policy most issues are covered by GATT; not all. So I suppose in the field of commercial policy we have always on our minds the possibility of examining issues in a broader form than the Canada-U.S. bilateral context.

The second question: Is there an occasion to move it into Geneva? By "occasion" I mean that there are frequently differences of opinion between Canada and the United States, and they happen to coincide with some events such as the Kennedy Round or the Tokyo Round where the same broad subject matter, the same groups of rights and obligations, are going to be renegotiated. That is what I mean by there being an occasion. A current example is the difference of opinion we have with the United States about their use of the countervailing duties which, as you know, apply at the moment to exports of Michelin tires from Canada to the United States.

If there was not a Tokyo Round, we would have to consider how we could mobilize enough international pressure to get the United States to change their whole system of law and administration so that this is less of a punitive weapon to be used against us. As it happens, the United States Congress has directed the administration to negotiate and it has given them some discretion for a four-year period in this very area. So there is an occasion to take what is a very difficult Canada-U.S. issue and handle it in Geneva. That provides the occasion, so that we have the next question: Is one's position going to be improved by Talking about it to the American delegation in Geneva rather than officials in Washington? There one looks around to see if there are other people whose interests are significantly the same as ours. You have the fact that the United States is threatening countervailing action against various countries including Brazil, India, and the European community, so potentially one has some allies. Each one of the countries will perceive the issue differently, but we are not going to be alone in the ring.

Senator Connolly: Not on Michelin tires.

Mr. Grey: I mean, that is the choice that has to be made each time. You have to look at that particular issue. Will we be better off by talking about it in Geneva? Frequently, we in Canada do not have a choice as to whether or not it will be taken up in Geneva. To take this particular example, the Congress has directed the administration to engage in negotiations looking to a review of countervail procedures in the context of a review of rules of GATT concerning subsidies. If one attempted to proceed very far with bilateral discussion of this issue, they would be

bound to say, "Yes, but our people in Geneva are dealing with that because there are other people interested." Whether we choose to take it to Geneva or not, that is where it is going to be talked out.

Mr. Dobell's question raised a question in my mind, and that is that you get only a limited view of trade policy discussions between Canada and the United States if you talk about disputes. Academic experts in international relations tend to talk about disputes because they are visible and can be counted. But a great deal of what goes on in multilateral conferences and bilateral discussions with the United States is not about disputes. It is often an agreement between Canada, the United States, and other countries, to try to improve the international order in some particular area. The common effort, for example, made by Canada and the United States to bring about a reduction in tariff barriers in a number of conferences in Geneva would be seen by many people not as resolving disputes—although there may have been some minor issues that fell under that heading—but more as a common effort to achieve an agreed purpose, even though there are many different interests involved and each country has different interests being served. In the case of a conference such as the one I am now involved in, even where Canadian and U.S. interests in the particular issue may be quite different there is an overriding interest in making the conference work and in solving the common problems that the two countries have. What I am saying is dispute is really too narrow a focus for this kind of discussion.

Senator Connolly: What you are saying, Mr. Ambassador, I gather, is that there may very well be, as between the governments of Canada and the United States, a common philosophical approach to general trade problems. This is perhaps more important than the resolution of an individual dispute, in the long run.

Mr. Grey: That is the case over quite a large number of issues, and has been since the setting up of the Bretton Woods system in the attempt to evolve an international trade organization in the immediate postwar period.

The Chairman: As I took it from the ambassador's remarks, we should not make the mistake of thinking in terms of trade negotiations as being the negotiation of disputes between countries. A great deal of the work being done is to achieve broader trading possibilities.

Senator Connolly: It is a constructive process.

The Chairman: Yes, a long-range constructive process.

Senator Connolly: That is what he spends his life doing. I have seen him at the airports!

Mr. Grey: The next set of questions Mr. Dobell conveyed to me was on coordination. I have read the evidence other witnesses have given before you on this matter. As far as commercial policy is concerned—and I really do not know about other areas of policy—it is in both Canada and the United States a highly politicized area of policy. I suppose this is because the Tariff, for example, applies different rates of duty to different products and it is perceived differently in different regions and, therefore, it is not an area in which ministers in Canada, Secretaries or Congressmen in the United States are inclined to delegate too much.

That leads me to say that the mechanism of coordination for commercial policy, particularly in the the context

of an active negotiation, is the cabinet. As long as cabinet fills its role of being a very active coordinator, then the rest follows almost automatically, or as a derivative of serving the needs of ministers going into cabinet committees and full cabinet and having to make decisions. The great discipline in commercial policy as between the departments is having to write it down in a memorandum for ministers in a form that will produce instructions. I would like to emphasize, Mr. Chairman, that is the case in commercial policy. It may not be the case in other areas of government policy, but it is very conspicuously so in commercial policy. I am not sure, for instance, in the business community if it is realized what little discretion the delegation in Geneva has in dealing with these matters. The cards they have to play are given to them by ministers, and they do not have any other cards. Frequently they make the judgment as to when or whether they should be played, but they certainly do not design the cards themselves. To take an example, I have been involved in four rounds of tariff negotiations, and I know of no tariff concession or offer to make a tariff concession that was ever put in play without the express authority of the Minister of Finance, as the minister responsible for the tariff. The direction by ministers is that close, and should be.

If cabinet is required, as a practical matter, to play that coordinating role in relation to a commercial policy negotiation—and that is certainly true of the Tokyo Round—then there has to be an apparatus set up at the official level and groups of ministers to serve that coordinating role, so it is the case that there is a senior deputy ministers' committee chaired by the Under Secretary of State for External Affairs, to whom I report, through External Affairs. The advice is passed to the ministers directly concerned and the ministers seek the concurrence of full cabinet. The position that the Canadian delegation has so far put forward in Geneva has been developed in that fashion. I would not be doing my job if I, or any one of the other members of the delegation, made any kind of statement implying that the Canadian government would support something that went outside the written terms as authorized by cabinet. For my part, I would not have it any other way.

As the negotiations progress and one learns more about the position of other countries and gets a better idea about the possibilities for the negotiations from a more intimate knowledge of how other countries may perceive the particular issues and what they are prepared to offer—that sort of fishing is the job of the delegation—ministers will presumably give more detailed directions and instructions on particular issues as they evolve. That is how coordination is achieved.

Finally, Mr. Dobell asked me to comment on how the business community and the provincial governments could make an input. I think it is known that there is a Federal/Provincial Committee of Deputy Ministers of Industry. It has been convened to meet from time to time to consider the impact of the evolving negotiations on areas of provincial policy. They are having a meeting tomorrow. There is a regular flow of information from departments in Ottawa to provincial governments. Information flows out about the evolution of the discussions in Geneva. As far as the business community is concerned, they have been invited, through the Canadian Trade and Tariffs Committee, to submit briefs. The policy advisers of the ministers principally involved are, of course, members of that committee. Unlike previous negotiations, I

think there will be a great number of occasions where businessmen will return to the Committee and submit supplementary briefs, and there will be face-to-face discussion with the senior advisers of ministers and with members of the delegation. In fact, there is one such meeting, I think the first important one since the delegation was established in Geneva, taking place on Friday. These are the mechanisms of coordination with the private sector that have been designed to fit the particular circumstances of these negotiations.

Mr. Chairman, I have commented briefly enough, I hope, on the points that Mr. Dobell suggested that you might be interested in.

The Chairman: Thank you, Mr. Ambassador.

Just before calling on Senator McNamara, I might just remind honourable senators that while this is a fascinating overall subject, we are studying Canada-U.S. relations and we should try to keep our discussion with Mr. Grey in that general area.

Senator McNamara: Mr. Ambassador, I would, in a personal vein, like to congratulate you on your elevation to the highest post in responsibility of heading the Canadian delegation. I have had the opportunity of working very closely with Mr. Grey in the past years and I know that Canada is very well represented.

Hon. Senators: Hear, hear.

Senator McNamara: The other matter was that you should not assume, from the limited number of members attending this committee today, a lack of interest in this subject. It just happens that there are four other committees meeting. From conversation with my colleagues, I know we have been looking forward to this meeting and getting as much information as we can from you.

The Chairman: I explained to Mr. Grey before we convened that this was not our normal day of sitting, and we wanted to accommodate him because we wished him to come before the committee.

Senator McNamara: Mr. Chairman, in opening this discussion you kind of took the wind out of my sails. I thought it might be worthwhile asking the ambassador, in relation to Canada-U.S. trade relations, if he would give us a brief outline of how the discussions are going in Geneva under the Tokyo Round. I am particularly interested in the part the American delegation is playing and the coordination between the Canadian and American delegations. I realize that Mr. Grey will have to be careful about saying things he used to sometimes tell me in private in Geneva. But I would in a general way like to know about the American attitude. Have the Americans ratified GATT? My understanding is that they have never ratified GATT. It always seemed to me that it was a very weak link. It has affected our relations with the United States. I am wondering if in this round there is the same emphasis from the United States as there was in the Kennedy Round, or whether there is more or less a little bit of lip service going on in encouraging the rest of the world to talk about trade, and they are kind of sitting back and calling the shots the way they see them later on.

The Chairman: May I interject just before I call on Mr. Grey to answer your opening question? In my remarks I did not want to inhibit this discussion, because I am quite aware of the great potential there is for Canada to work

with the United States vis-à-vis the Community, which is working and negotiating as a bloc in Geneva. There are other occasions when we might do the opposite and work with the bloc, as opposed to the United States, as far as the industrialized world is concerned, including Japan. Nothing that we do on a multinational basis does not have a direct bearing on our relationship and huge trade with the United States, which comes to some 70 per cent. It was possibly redundant of me to make that remark. Almost anything we do at GATT is going to have some relationship or bearing on Canada-U.S. relations.

Mr. Grey: Mr. Chairman, if I could answer Senator McNamara's second question first, on the status of the general agreement in the United States. It is not a treaty. The United States adheres to it by having brought their relevant commercial law into line with GATT. As far as tariff reductions are concerned, they have the authority of a presidential proclamation, within the limits of the power delegated to the President by the Congress, in the various trade expansion acts and trade agreement acts that have been passed from time to time. If you ask how the United States meets this or that obligation set out in the general agreement, you have to look into the whole structure of the United States commercial law to find what changes have taken place by legislative action. They did not follow the treaty provision of the Constitution. On the other hand, if you examine the current trade law, the Trade Act of 1974, you will see there are a number of directions to the President and the administration to bring about certain changes in GATT, although the very language of the statute suggests that the United States accepts that GATT is there as a permanent part of the landscape.

Senator McNamara: Are they as committed to the principles of the GATT negotiations as Canada?

Mr. Grey: The initiative for the Tokyo Round was in a major part that of the United States, but not solely. They perceived a number of changes that they wanted made in various parts of GATT. They feel that many of the rules are out of date and, indeed, they are biased against them. You will recall that the first draft of the legislation presented by the administration to Congress was not called the Trade Expansion Act or the Trade Agreement Act, but the Trade Reform Act. The word "reform" was dropped. Now, of 1974, it is just called the Trade Act. It does, however, make clear that much of the emphasis and the thrust of the United States position is a reform of the rules in the field of commercial policy. This is reform for instance, of the rules on the escape clause or safeguard provisions, reform of the rules on subsidies, on counter-vail. Also tariff negotiation is not the centrepiece of the negotiation; it is one of the major components, but not the centrepiece in the sense that tariff negotiation was the central part of the Kennedy Round.

Senator Connolly: Mr. Grey, I think it would be invaluable to this committee, you having given the American position, if you could now set out immediately a description of the Canadian position.

Mr. Grey: Mr. Chairman, I wonder if I could suggest that the Honourable Mr. Gillespie, who has the operating responsibility for trade policy, on an appropriate occasion be asked that question. I operate on instructions. I do not mind explaining to the American delegation what our position is, but I would rather not explain it in public. I would rather deal with Senator McNamara's first question.

Senator Connolly: Perhaps it is a matter of Canadian policy. Can we do it this way: exclude the question of policy and tell us what Canada has done with respect to GATT in the way of becoming a member of the organization, a party to the agreement? Just tell us the bare historical facts. I think that is enough for our purpose.

Mr. Grey: I thought that you really wanted a description of how our policy is evolving in the current negotiations.

Senator Connolly: It is not for us to ask you about policy.

Mr. Grey: It requires rather a lot of preparation. I suppose the short answer to your question is that a country as dependent on trade as Canada is bound to have a stake in the establishment of effective regulations dealing with international disputes and the setting up of a framework of law regarding international trade. The anarchy of the 1930s is something that is bound to cost a trading country a great deal. I do not think you ever meet a Canadian who feels our interest would be served by a more anarchic approach. Therefore, from the early postwar period efforts were made to devise something like an international trade organization. This is the parallel, in the trade field, to the international institutions in the monetary field. Canadians have felt that would serve their interests, although there may be a dispute over a lot of the details. Traditionally, we have been about the most ardent advocates of GATT because one Canadian government after another has felt on each particular issue it was better protected by working within a framework of international law. To the extent that people did not obey the rules or the rules were not enforced, or we did not adhere to our obligations or exercise our rights, in the long term our interests would be adversely affected. It has been the case since the Geneva Conference in 1946 that Canadians have had to play a fairly active role. The GATT, in a certain sense, is a Canadian instrument.

Looking back over a 20-year period, the policy developed by the senior officials of different countries who made up the GATT secretariat was often the Canadian policy. Our policy was basically to build an international order in this field. The disputes were about the details, not about the need for the framework.

Senator Connolly: Did Parliament adopt a general agreement?

Mr. Grey: Subject to correction, what happened, sir, is that after the Geneva Conference of 1946 and 1947 there were a number of changes in Canadian legislation. We proceeded somewhat the same as the Americans did. We did not adopt it as a single instrument. For one thing, everyone was aware it was going to be revised and would be continuously revised. It was revised in 1955 very substantially. What we did was we brought our law, area by area, into conformity with the GATT provisions.

The Chairman: I think the expression so often used by people is whether or not a nation adheres to GATT. That may be a layman's expression.

Senator Connolly: The evidence of our adherence is of the same order as the evidence of adherence on the part of the American government.

Mr. Grey: Yes, sir; it is a signature on behalf of the Canadian government to a series of protocols which are registered in Geneva. All of those various protocols taken

together constitute the general agreement. It is our trade agreement with a number of countries.

Senator Connolly: Plus adjustment in your commercial legislation to conform.

Mr. Grey: Yes. The obligation is set out in the series of protocols which we sign. Rather than adopting those instruments into Canadian law as, for example, we did in the case of the Canada-Australia Trade Agreement where Parliament enacted that specific instrument as law, we proceeded in the other fashion by bringing the particular statutes into conformity with the agreement.

Senator Connolly: When you say protocol, does that not imply that it is an addition or an addendum to a master document?

Mr. Grey: All the GATT instruments are in fact called protocols and the sum of those various protocols constitutes a general agreement.

Senator McNamara: Are you happy with the way things are going? Does there seem to be the drive that there was in the Kennedy Round, or are we playing it loosely?

Mr. Grey: I could perhaps answer in part what Senator Connolly was getting at as to our position in these negotiations. The Honourable Mr. Gillespie said on one occasion that these were possibly the most complex commercial policy negotiations in which we have ever been involved. I think that is the case. In the Kennedy Round there were three components: tariff negotiations; anti-dumping negotiations, and the grains agreement. In this negotiation we really are looking at a great many of the provisions of GATT which some countries perceive as being in need of modification. The Americans, for example, clearly feel that Article 19, the so-called safeguards provision or, in their terminology, the escape clause, needs to be revised. Clearly, we want something done about the use of countervailing duties. The Americans feel that there should be better rules on subsidies. We are having a tariff negotiation in due course, as well. There are negotiations going on of a more specialized character in the field of agriculture. We are talking about special negotiations in natural resource based sectors of production and trade. That is more complex than the Kennedy Round. There are more countries present. We are starting these negotiations at a time when unemployment in many industrial countries is uncomfortably high and governments are preoccupied with short-term problems of business cycles. It is not a bad time to start a negotiation, but it certainly is a time to proceed rather methodically and carefully.

The United States administration, as is always the case, has done a formidable amount of work in the course of preparing the legislation and of giving evidence before congressional committees. Their policy in regard to negotiations has evolved. Their policy, their directives, their instructions are public. They are set out in the Trade Act in very considerable detail. They arrive in Geneva extremely well prepared. The result is that upon any one of the issues for negotiation one finds that the United States delegation has examined the issue in very great detail and, of course, from an American point of view. They have done their homework.

Very soon after the beginning of the more formal part of the negotiations which began when the Trade Act was signed by the President, we had a meeting between the two delegations, at my request. At this particular meeting

a number of senators and members of the House of Representatives were present and, also, some of their staff.

Senator McNamara: Is this in Geneva?

Mr. Grey: In Geneva. You will appreciate that commercial policy is a matter for Congress, not for the administration. Ever since the days of Mr. Cordell Hull and the good neighbour policy, Congress has proceeded to delegate to the administration specific and carefully defined negotiating powers. That is the case this time.

Senator Connolly: Through the act? In the bill, itself?

Mr. Grey: In the act, senator. The whole exercise in drafting the legislation and passing it was to define words acceptable to Congress in the delegation of power.

The point I made at that meeting was that once we had started it would cost Canada quite a lot if it failed. We simply could not allow it to fail. That had been our position from the preparatory stage. It was clear that we had to work closely with the United States. We had to know what the United States had in mind. This did not mean that we would agree with them even part of the time, but at least we ought to work together because we had a common interest in making this thing work. This conference, in major part, was initiated by the United States, but our interests were vitally concerned. It would be quite foolish not to make it a regular part of the delegation's business to maintain contact with the United States delegation at every level, and all the more so because of the nature of the process. They arrive in Geneva at the technical level extraordinarily well prepared. We have to have, of course, close working contact with other major delegations. We are, of course, doing that. Because of the importance of our trade with the United States and the fact that they have developed their position on every issue, perhaps more than any other country has because they do this at the legislative stage, it is vitally important that we talk to them.

Senator Connolly: I gather that it did not emerge from the legislation what their attitude would be, on a sufficiently broad base for you to begin negotiations without a preliminary talk?

Mr. Grey: What one talks about, senator, is how, in an organized way, the conference can address itself to this or that specific issue. If, for instance, we are going to discuss countervailing duties, we first of all have to know what the United States position is, we have to know what the Japanese position is, at the very least. There are a number of other countries involved because they have been threatened with countervail, too. With 80 countries present, we need to develop a view as to how one can get at the issue. You cannot negotiate in a sort of debating society. Somehow you have to agree on a work program that people will put in documents dealing with this or that issue at a particular point in time. I suppose it is a form of conference housekeeping without which you cannot run a conference. Much of the Canada-U.S. contact is of that sort. That is what makes the conference work. At the end of the day it is what will determine whether or not we can make some agreements.

I would like to distinguish between the conference and the pre-conference. Certainly in the pre-conference period we had closer contact. By that I do not mean a meeting of minds. We simply had more discussion with the United States than we had at the time of the Kennedy Round. One

can see now that when the Kennedy administration was taking over in the United States it was a period in which there was very little contact between Canadian and American ministers, secretaries and officials in the field of commercial policy. This is for a variety of reasons. The Americans evolved the Kennedy trade bill virtually without regard to the views of other countries. That created certain difficulties. Some of the proposals which became embodied in the legislative instrument did not really fit very well with the interests of other countries.

Recently we have had much more contact with the United States. We have had an opportunity now to express our views and to hear their views through the preparatory period to a much greater degree than at the time of the Kennedy Round. That habit of consultation is carrying itself forward into the conference. It was never more necessary than it is in this conference, simply because there are so many more countries present. Unless those countries that have an interest in the resolution of some matter, such as countervail, do a great deal of bilateral homework, the conference can get bogged down in rhetoric, debate and procedural discussion. In a trade conference of 80 countries that is an ever-present threat.

Senator McNamara: In our study of Canada-U.S. relations, GATT is going to be very prominent and we are going to have to watch and clearly understand what comes out of the Tokyo Round. I also gather that we should not expect final results of this conference within the next few weeks or months. It is going to be quite a long affair. I hope we shall have written our report before that.

Grain is not involved in the trade agreement, is it?

Mr. Grey: There are certain discussions going on, under the direction of the International Wheat Council and a grains group has finally been convened in Geneva which has a rather broader ambit than the International Wheat Council. The relationship between these two discussions, which may become negotiations, is a little unclear yet. Different countries have different views. There is a grains subgroup set up under the agricultural committee of the conference. There have been a lot of procedural problems between the United States and the EEC, with other countries also involved. As a result work has probably gone slower than any other part of the conference. It is too early even to form a private view as to how that part of it may develop. We are a little further into some of the other issues.

Senator McNamara: As you know, the grains discussions were quite prominent in the Kennedy Round. I have the impression they are being played down a little bit. There is not the universal support for them to be included that there was in the Kennedy Round. That is just a personal opinion.

Senator Connolly: It is almost impossible to know where to start. I wish we could continue on the subject of grains. Perhaps I could ask this preliminary question. At the food conference in Rome last fall, the Canadian government took a very forthright stand with a proposal to make immediate supplies of grain available to nations that were threatened with starvation. Do the GATT negotiations at any time take factors like that into account?

Mr. Grey: The last grains agreement, as negotiated at the end of the Kennedy Round, included a food aid convention. The idea of a broad agreement on grains has got

to deal with the aid component of international trade. That is on the table in Geneva.

Senator Connolly: Does that mean that the offer that was made by the minister at that time, to make supplies available immediately, would be raised in current discussions in Geneva?

Mr. Grey: If there is a successful grains negotiation in Geneva, I would have thought that we would want to subsume in any agreement our obligations about aid in the form of grains. We did previously and there is a good case for continuing that format. We are at such an early stage of the grains discussion that it is very difficult to predict.

Senator Connolly: Do we carry the judgment of the American delegation on our position? Perhaps you cannot answer that question.

Mr. Grey: That is one I would rather not answer because discussions have taken place in London under the Wheat Council. I have not been present at them. The link between the Geneva discussions and the London discussions on grains has not been fully developed, and it is quite apparent that different negotiating countries have different views as to how that should develop.

Senator Benidickson: For several years I was the most westerly-based member of the official Opposition. In consequence, because of my Prairie birth, I was asked to be agricultural critic for the Opposition. I kept abreast of grain developments. I have not had reason to do so since. What is the position of the International Wheat Agreement? How does that relate to what you do in Geneva for GATT?

Mr. Grey: The International Wheat Agreement and, indeed, other commodity agreements traditionally deal with such matters as what obligations are assumed when the price falls or rises to a particular level, by both importers and exporters. It may also deal with the question of whether there are obligations to maintain stocks.

Senator Benidickson: Is there still an International Wheat Agreement?

Mr. Grey: Yes.

Senator McNamara: Not an agreement; the agreement, as such, has expired; there is an arrangement.

Senator Benidickson: When I speak of 10 years ago, there was an International Wheat Agreement for a price below a certain figure and a price above a certain figure. Exporters and importers were working under this restraint.

Mr. Grey: There is no agreement of that form operating now. Since those days the idea of building provisions about stocks into the agreement has become more prominent to carry over from year to year and how the financial obligation of that should be shared.

In Geneva, not inconsistent with that, one is also dealing with the question of the rules that affect imports into the importing countries. It may be a matter of presentation or convenience of different governments whether you have some of the obligations in a wheat agreement and some of them set out in an instrument under GATT. One of the reasons for having some of this set out under the wheat agreement is that there are certain important grain pro-

ducing countries that are neither members of GATT, nor participating in this conference in Geneva. I should say parenthetically that this conference is open to countries that are not signatories to GATT. Several important trading countries that are not signatories to GATT are present, for instance, Algeria and Mexico.

Senator McNamara: The U.S.S.R.?

Mr. Grey: The U.S.S.R. is not participating in Geneva, but surely they should be involved in the grains agreement. That is an important reason for having part of the grains discussion taking place in a different forum.

The question of linking these discussions together in time and making the obligations consistent is a matter the government will all have to work out over a period of time. In both places the discussions are at a pretty early stage.

Senator Connolly: I did not get to my first question. That was just a preliminary. You have spoken about the restrictions on the Canadian negotiators, throughout the GATT negotiations, which have presumably been imposed by directions from the minister. Presumably, this comes in the normal course after interdepartmental discussion, and finally it is settled by cabinet and the instructions are issued. Your discretion is limited to the extent of this memo. It is very enlightening for all of us to hear how clearly you tell us that when it comes to trade policy, as formulated in the United States, this is primarily the responsibility of Congress rather than of the administration.

Mr. Grey: That is set out in the Constitution.

Senator Benidickson: Except in large part they specifically delegate under the Trade Act.

Senator Connolly: They do this by passing legislation by which they limit the negotiating authority. This explains why there seems to be much more sense of urgency on the part of members of Congress to participate in trade discussions. In other words, here the policy develops from above, the cabinet, and it seeps down and perhaps it finds its way into changes in the Tariff and various aspects of customs legislation, trade policy, treaties, and things like that.

Would you say that as a Canadian negotiator your position could be made more flexible as a result of the system that we have than is the case with the American negotiator who may be bound by legislation Congress has passed?

Mr. Grey: It is the case that Canadian delegations have usually felt that they probably had more discretion to move within the framework authorized by ministers than their corresponding members in the United States delegation. That, I think, is because the Canadian position is probably more coordinated because it is coordinated by cabinet. Cabinet speaks with only one voice. In the United States the day-to-day authority is given usually by some inter-agency body. Differences between the various agencies, it seems to me, have sometimes been carried to Geneva in a way that is not the practice in the Canadian delegation. Canadian delegations, in such a conference, have traditionally spoken always with one voice and say what ministers authorize them to say. It is the case when you talk to American officials, they may often tell you that they are giving you the Treasury view, the Interior view, or the Department of Commerce view. I am not making this observation in a pejorative sense. I report that as a fact. That is part of the way the Americans are governed.

Senator Connolly: Do they ever put the congressional view, or is that already set out in the legislation?

Mr. Grey: To a large degree that is set out in the legislation at this time. The previous tranches of trade legislation by the United States concerned themselves a great deal with tariffs, and then with the reform of the United States legislation on trade policy. That is, they did not give directions to the negotiators to bring about an improvement in that set of rules or another set of rules. A large part of the Trade Act of 1974 consists of directions to the administration's objectives. In the field of countervailing duties, for instance, the administration, or the Secretary of the Treasury, is given a special four-year discretionary power to set aside a countervailing duty action if he thinks it will prejudice the negotiations. It is four years as distinct from the five-year authority which is the act as a whole. This bit of trade legislation goes much further in the direction of including the administration's directions across the whole field than has ever been the case before.

Senator Carter: Senator Connolly raised the question of flexibility. The witness replied on the basis of a comparison of ministers with counterparts in Congress. I thought Senator Connolly was thinking in terms of the institutions, Congress versus Parliament. I have always had the impression that Congress, as a body, has much greater flexibility than we do in Parliament because they can always attach a rider to almost any bill to modify it, even to a bill that is not related to trade. It seems to me that they can attach some sort of rider to legislation which has to do with trade or trade conditions. Is that not so?

The Chairman: They may have flexibility in that respect, but once they have passed a bill and have given the parameters of the negotiating ability to the administration, then the administration must work within the framework of that bill. Whereas our team may be confined to working within the instructions given to them by our ministry, the ministry can change those instructions and broaden them on a moment's notice to any extent it wishes. So we surely are more flexible than the United States.

Senator Connolly: We do not get down to parliamentary action until something comes in the way of a new bill or an amendment to an existing bill.

The Chairman: Parliament is not consulted at the stage we are talking about.

Senator Connolly: It is really at the other end of the process that Parliament gets into it.

Senator Carter, my impression of the evidence given by the ambassador this afternoon is that a Canadian negotiator is in a position to be more flexible.

Mr. Grey, you have been involved in these negotiations, to my knowledge, for many years and they are protracted. You are away from the country for a long time, as you are on this present stint. I suppose that from time to time if you see negotiations going in a certain way and you feel that your team should have a broader discretion or better instructions on a specific point, you can always ask for them, and perhaps you do.

Mr. Grey: On the question of our having more flexibility, what I intended to convey was that, possibly because of the obvious differences of view between the various agencies in Washington, the negotiations tend to be conducted from Washington. The delegation in Geneva has a little

less authority. I think it is the case in the field of commercial policy that once ministers have given direction, then the implementing of those instructions, working within that framework, is left to the delegation.

To get to Senator Connolly's point, if we correctly foresee the negotiating position of other countries and correctly perceive our own interest, I suppose one could write down at the beginning of negotiations on a given issue what are those interests, what are our interests, what are the negotiating possibilities, and derive the instructions and you might never come to the ministers until it is all over. You could report back, "I have made an agreement, *ad referendum* within my instructions." Frequently you do not have it all at the beginning and you have to come back a number of times and say, "It has now evolved this way. May I have authority to do so-and-so?" I would like to make it clear that the delegation does not do that. It comes to senior officials in Ottawa, because once a delegation has been away for a few months they get very much out of touch with what is happening in Canada. The important thing is for them to know that they are out of touch. Their job is to proceed on instructions and not try to invent policy. If clearly the position is unnegotiable, they should report that. The instructions have to be generated in Ottawa.

Senator Connolly: When the euphoria—I think that is the word to use—developed over the Kennedy Round, it was a great concept and I think we were very excited about it in this country because we do depend so much upon our foreign trade. The concentration of interest was as trading generally affected the developed nations of the world; we were talking mainly about the flow of goods and services between the wealthy countries. In the GATT negotiations, as they have gone on and now in the Tokyo Round, do the problems of the developing countries come more into the discussion than was what I conceive to be the case earlier? Secondly, what is the Canadian and American position in respect of the problems of these developing countries?

Mr. Grey: In the Kennedy Round not a great deal was done in the way of procedural arrangements to focus attention on the particular trade problems of the developing countries. Many developing countries subsequently complained that their interests had been adversely affected by the Kennedy Round. Some of those protestations are not very convincing because they come from countries that did not bother to put a delegation into the Kennedy Round. So it is perhaps not surprising that their interests were not well served if they were not present to identify what those interests were and get them into the negotiations. That is history.

In the Tokyo Declaration there is a paragraph about the resolve of all the ministers who assembled in Tokyo to have the Tokyo Round bring special benefits to the trade of developing countries. I cannot quote the exact phrase. Ministers recognize that we should make an effort to have special and differentiated treatment, better treatment, for the exports of developing countries. Under every heading of the conference, every subgroup or working group, one of the items on the agenda is what do we do about special and differentiated treatment for developing countries. Sometimes it is not readily apparent that we can do much. We are making a very considerable effort to try to identify it. Quite a number of the developing countries are very strongly represented in Geneva. They are very articulate. The Canadian delegation will spend a great deal of time in

bilateral discussion with major developing countries and with groups of them, such as the Andean group or the ASEAN group, trying to identify, by getting down to brass tacks, what are the specific trade interests in the Canadian market. Can we do anything to improve their trade prospects and get from the stage of rhetoric and broad objectives down to dealing with particular commodities, particular tariff items, and particular trade provisions? A certain amount of attention has already been given to the possibility of whether we can reach an agreement before the end of the conference on special arrangements on certain tropical products, bananas, spices, and other tropical agricultural products. The developing countries in Geneva are now putting in lists to each developing country saying, "In your country this is what we want. These are the tariff items. We want tariff reductions." There is a great deal of work that has to be done before we can identify what are the problems and whether there is anything that as a country we can do. All I can report at this time is that a lot of the resources of the delegation are going into that work. If there is a general disposition on the part of the industrialized countries to do something for these countries before the end of the conference, I guess that we will not be lagging behind.

The Chairman: The danger that I foresaw in my opening remarks, about the difficulty of trying to keep this within the context of the Canada-U.S. study, is indeed a difficulty because it is such an interesting, broad subject.

Senator Connolly: We have done pretty well. Mr. Chairman, if I may say so, when we discuss and ask the ambassador questions about the procedure and the actual events that are going on in Geneva, we are beaming our questions on the problems of Canada-U.S. trade because they are our greatest customer. I am sure every one of those developed countries the ambassador is working with has an idea in its mind that they want to get into the American market perhaps more than any other market—I imagine, even more than the European market. This is a problem for Canada's relations with the United States.

Mr. Grey: If I may make an observation, I get the impression that a lot of countries would like to get into the Canadian market. One of my problems is to be sure that we do not develop rules under which we have to give more than we get. That is really the problem, as I see it. After the American market, it is the Canadian market that people want to get into. We are the big importers per capita. We are very big importers of highly manufactured products from Japan and Europe. Couple that fact with the feeling in some quarters that we came out of the Kennedy Round with significant tariffs on manufactured products.

Senator Carter: You mean tariffs against us?

Mr. Grey: No, tariffs against them. Certainly, it is the fact that part of the United States policy and European policy is to bring down Canadian barriers to their exports. A lot of effort will go into trying to devise general conference rules which will be to Canada's disadvantage.

The Chairman: I was going to ask a question very closely related to that. I do not know if Mr. Grey would feel free to give an answer. From a very general point of view, taking the main industrialized negotiators in GATT—the European Economic Community as one, the United States, Canada and Japan, for instance—are there clear alliances? Does Canada fall more commonly on the side of

the United States in pursuing generally freer trade, whereas the Community would endeavour to keep tariffs up, or is it the other way around? Are there any apparent general alliances which we fall into in these negotiations? Are the objectives of any of those countries or groups such that we fall more readily into one than another?

Mr. Grey: I suppose that we share with the United States the determination to make this conference work. That is because we know it will hurt us a great deal if it does not work. That does colour all our thinking. I do not think there is any one country or group of countries that Canada is invariably found with. Certainly we look for allies, but it is a different set of allies, depending upon the issue. It is the case in procedural discussions, discussions about how to go about organizing a work program so one can get one's hands on the very difficult matters, that probably the Canadians and Americans tend to think the same way, even though their interests in a particular issue may be radically different.

The Chairman: My question was more confined to actual levels of tariffs.

Mr. Grey: There is so much more at issue in this conference than just tariffs. The representative of the United States said to me that perhaps the single most difficult issue will be subsidies and countervail. This is developing some adequate rules about subsidies to production of exports, and rules setting out the situation in which one can act against subsidized goods. That may be one of the most intractable, most difficult and perhaps one of the most important areas in the whole conference.

Senator Connolly: Could you give us some examples?

Mr. Grey: Michelin is a concrete example. Should the various forms of assistance by the federal government and the provincial government to that particular corporation be considered as being appropriate, or should there be rules which would set limits to it? That is the sort of question that is going to be examined.

Senator Connolly: Could you give me examples for underdeveloped countries?

Mr. Grey: The underdeveloped countries would argue that the existing provisions of GATT really mean that they are not under any inhibition whatsoever in terms of subsidizing the goods. The GATT contains a section, Part IV, which really leaves them remarkably free of any obligations of that sort. There are GATT provisions about subsidies. The point is whether they should be developed through an interpretative note, through a code, or rewritten provisions to set limits on, say, the operation of the DREE Program. We are just getting to the issue.

To get back to your point, Mr. Chairman, about allies. On that issue, the Community, because they have been threatened with countervail and have been countervailed against, is an obvious ally, and obviously we would be talking to the Community about what limitations we could all accept in the use of countervailing duties that would help to deal with this problem. We would expect to talk closely with Brazil and India, and other countries that have been countervailed or threatened with countervail, although their position is a bit different. They feel that their goods should never be countervailed against because they are developing countries and they are in a slightly different position.

On another issue we might find different allies. In the proposals that we have put forward, for instance, for a more systematic discussion of the barriers to trade based on natural resources, copper and non-ferrous metals, it is the Mexicans who are our allies. In other words, bringing out the agenda of the conference by looking at it in product or commodity sectors, rather than by looking at the instrument by which you intervene, that is, whether it is countervail or subsidies, but, instead of that, dealing with all of these things as they bear on a product sector.

Senator Carter: Perhaps my question is impossible to answer, but I am only asking for an opinion. The United States is our most important market. Canada ranks very high as a very important market to the United States. We have a common interest. We are almost each other's best customer.

Senator Connolly: We are.

Senator Carter: We are actually each other's best customer. From what you said earlier, the two of us together rank pretty high as customers for the developing countries. Given that setting, what kind of base do we start from in our negotiating from a protectionist point of view? On a scale from one to ten, where would Canada fit vis-à-vis the United States?

Mr. Grey: There are two answers to that question. The American and the European answer would be to look at the absolute tariff levels, primarily, because particularly in Canada we have put more weight on the tariff as the instrument by which we intervene than other countries have. We do not have a system of administrative guidance such as is said to exist in Japan. On that basis you can make a sort of statistical argument that in the field of semi-processed and manufactured products our tariffs are higher than those of the United States and Europe. But that is based on what I think is a false assumption, the assumption that a tariff of 10 per cent means the same thing in economic terms when applied by the United States or the Community as it does when applied by a smaller country. The market is smaller and the units may not be up to the optimum size. The Canadian answer would be to say that there is nothing to be said about comparing tariff levels between countries of such radically different sizes as Canada and the United States. Perhaps you ought to look at the level of trade that takes place over imports. If you look at the volume of manufactured imports that enter Canada duty-free, it is in absolute terms larger than the manufactured imports that go into the Community or Japan, or the Community and Japan combined. I do not have the statistics in front of me, but a very large volume of manufactured goods enter Canada over no tariff and even over what people would think were moderately protective tariffs. By that I mean tariffs of the 15, 17½, 20 per cent range which typically apply to consumer products such as white goods and cars. We are still, per capita, a much larger importer than any other major industrial country. On that basis you can say our tariff system obviously is not very protective, judging by the results. Those are two different sorts of answers.

Senator Carter: Vis-à-vis the United States, we are less protective on a per capita basis and volume-of-trade basis than the United States, on an overall view. Is that a fair summary?

Mr. Grey: The United States has some very sharp peaks in its tariffs. They have tariffs that are virtually prohibi-

tive. They also have some very low tariffs on manufactured products. By contrast, we have a wide range of manufactured products that enter duty-free. To take a case in point, we have free entry for virtually all farm equipment and farm implements, parts for them and material for the manufacture of the parts. Then we have a group of largely consumer products and capital equipment for industry where the tariff protection is around 12½ to 20 per cent. The Honourable Mr. Turner in one of his budgets said 15 per cent was a sort of basic protective rate of the Canadian tariff. The Europeans, when looking at our tariff structure, think of that as being rather a high rate. For many of those products the Americans have lower rates. On the other hand, we look at some of the goods that potentially could be exported from Canada and we see that they have prohibitive rates. Out of a series of conferences we have rationalized our tariff rate structure to a considerable extent so that the protection for the manufacturing industry is all around the 12½ to 20 per cent rate, except for a few products like textiles where international trade is really subject to quantitative restrictions and special restraint arrangements. Tariff rates are higher in every country there.

Senator Carter: How do we compare with respect to non-tariff barriers?

Mr. Grey: I said earlier that we relied in Canada more on the customs tariff than related instruments like the anti-dumping duty. We rely more on imposing a tax at the border than other means. In other countries the balance between the use of instruments is different. Countries have searched very hard and they have not been able to make very many meaningful complaints in Geneva about our non-tariff barriers.

The Chairman: When we were in Europe on the parliamentary exchange, they complained about our having a higher general tariff structure. This was one of the complaints of the Community. We countered that by saying that we thought we were much purer on NTBs than they were. It has been said in recent years—and I thought Mr. Grey, in this particular context, might comment—that the Kennedy Round actually forced a large range of tariffs down to a level where further reductions might be helpful to further world trade. They almost now are to a point where the NTBs loom larger than the tariffs themselves. You could really have a wheel-spinning exercise in negotiating lower tariffs. If you did not do anything about the NTBs you would not accomplish anything.

Senator Carter: Was that not a result of the lowering of the tariffs? What they lost on the roundabout, they made up on the swing.

The Chairman: This is it. This is the reason why the negotiating now is so much more difficult than before. The NTBs are so much more difficult to define and police. Man's ingenuity is endless in thinking up ways around something. Perhaps Mr. Grey would like to comment on that.

Mr. Grey: I think it is the case that in the United States, for example, we expected, and we were not disappointed, that after the Kennedy Round there might be rather more recourse to the use of the anti-dumping system and the countervailing duty system. As tariffs came down, businessmen would feel that they had lost some protection and they would look for other means of protection, particularly if they felt there was some kind of a subsidized or

dumped import they were dealing with, and there would necessarily in all countries be more recourse to these other ways of dealing with unpleasant competition. It is the case in Canada, although we do not have statistics on it. It is certainly the case in the United States. That does not mean that these other measures are much more a part of this conference than was the case before.

The Chairman: We will be going into Canada-U.S. trade in the second phase of this study next fall. One of the matters that will be coming before us unquestionably will be arguments of free trade with the United States, manufactured goods, and so on. To what degree is it possible properly to police NTBs that you get into in a free trade situation, and how do they do this within the Nine in Europe? In other words, they are now a common market. Have they complicated mechanisms to make sure that within the Community NTBs do not take the place of tariffs which have been eliminated?

Mr. Grey: The European Economic Community is more than a free trade area. A free trade area is defined in GATT as an arrangement in which restrictions on substantially all trade are removed. But the Community is more than that. It is a customs union. It is moving towards a limited economic union and, quite clearly, a number of people envisage it will be very much more than that in due course. There is a whole apparatus set up in Brussels, including a judicial apparatus, to deal with a whole range of restrictions, threatened restrictions, interventions by government, or actions in the private sector which take away from the free movement of goods within the Community.

The Chairman: That is the answer to my question: they do police it.

Mr. Grey: Yes.

The Chairman: They have the structure to do so.

Mr. Grey: Yes. They can take you to court, too.

Senator Connolly: The U.S. has this law about the imposition of countervailing duties. Do they also have an anti-dumping provision in their tariff?

Mr. Grey: Yes, they do. They were active participants in the negotiation of the anti-dumping code in the Kennedy Round. The question as to whether the negotiators had gone beyond the limits of U.S. law became a highly controversial issue in the Congress after the Kennedy Round. Many congressmen and senators believed that the negotiations had gone further than the existing law allowed. That was one of the reasons why it was felt at this time they would establish clear ground rules in the relationship between the administration and the Congress in negotiating in fields other than tariffs. The precedents in negotiating tariffs had been set in the 1930s. Congress delegated a sort of numerically defined and limited power to the administration. In non-tariffs fields it is more difficult to define. In the drafting of the Trade Act a great deal of attention was given to what powers the administration would have in the negotiation of various non-tariff measures. Much of the act is concerned with that.

Senator Cameron: To what extent is the quota system being used as a tariff?

Mr. Grey: By Canada, to a very limited extent. It is only in the field of textiles and agricultural products, and in those two sectors in a very limited way. By the developing

countries, very extensively indeed. By the Europeans, to some extent, particularly in the areas of textiles and agriculture—in those two areas much more than we do. It is traditionally a method by which the United States government has dealt with emergency problems. When they have had a problem of a sudden influx of goods that has caused difficulties for producers in that area and they are not dump goods, then they have dealt with them by the imposition of a quota. That is a so-called escape clause provision.

Senator Cameron: Do you foresee any increase in the use of it in this country?

Mr. Grey: In the general agreement there are a number of provisions that allow governments to impose quotas in carefully defined conditions. If the state of the economy is such that those conditions develop, then it would be appropriate for the Canadian government to use it. If in any sector of industry there is such a deterioration that some emergency intervention is required, under existing legislation there are certain powers to impose quotas. Perhaps they are not as great as in other countries, but there are certain powers to impose quotas. There is a framework of international agreement under which they can be used.

The Chairman: Honourable senators, I wonder if you would permit me to direct the questioning for a few minutes to the general area of the role of the provinces in this field. This, I think, is important in our relations with the United States.

We have had a great deal of evidence on the difficulties of two federated states living beside one another and, in the same context, I would be very interested, in relation to the GATT negotiations, in the whole subject of how you involve the provinces. The provinces, of course, cannot institute tariffs, but they could be fairly effective in instituting non-tariff barriers of their own, if they set about doing so, I suppose, by one strategy or another. In any event, I would be interested in knowing the involvement of the provinces in your work, the input they might have and, in addition, any problems they may present.

Mr. Grey: Mr. Chairman, in the field of commercial policy there is, I think, a long-standing practice in a number of government departments in Ottawa to deal at the working level with the provincial administrations. Clearly, a number of commercial policy measures, in their detailed application, have a direct impact on policies being implemented by the provincial governments, and they often wish to make representations about them, or to seek some kind of tariff accommodation for some particular firm they are helping to establish under some provincial industrial development program. So, there has been a long history and practice of close working level consultation with the provincial governments.

In the Kennedy Round—and I will not go back further than that—the terms of the Committee that were set up to receive briefs, which was called the Canadian Trade and Tariffs Committee—and the chairman of that committee was Mr. Norman Robertson and the vice-chairman was Mr. Hector McKinnon—made it quite clear that the provincial governments could appear in front of that committee and make representations about trade policy matters that were involved in the GATT negotiations specifically, or about the impact of such policies on particular industries. Some provincial governments took advantage of that opportunity.

Again, it is the case that, for the Tokyo Round, the Canadian Trade and Tariffs Committee, of which Mr. Gear McEntyre is the chairman, is in a position to receive briefs and representations from the provincial governments, and this was made clear in the announcements by the minister.

Senator Benidickson: How long has Mr. Gear McEntyre held that chairmanship? I saw an article about it in the *Financial Post* recently.

Mr. Grey: I am advised that he has held that chairmanship since November, 1973. We set that committee up at an early stage—well before the trade act of the United States was passed—because it was apparent that we would be in negotiation in Geneva as soon as the trade act was passed. A number of provincial governments are putting in briefs to that committee. In addition, many other techniques of communication with the provincial governments are being utilized.

Throughout the preparatory period, the officials in Ottawa working on various aspects of the negotiations have been visiting provincial capitals, particularly those officials involved in the development of what might be our commercial policy with respect to the export of natural resources and the products derived therefrom. Also, there have been almost innumerable meetings with provincial officials and various provincial departments on all aspects of these policies. There have been many working papers exchanged and an exchange of views.

There have been some more structured and organized meetings chaired by Gear McEntyre. For instance, there was a very detailed meeting in which we worked out an understanding about the use of statistical trade information. There is a great deal of briefing going in both directions. Subsequently, Mr. Gillespie had a meeting with the provincial ministers, and the first meeting of his committee with the provincial deputy ministers is going to take place in Ottawa tomorrow.

I should think that throughout the course of the negotiations there will have to be contact from the ministerial level down to the highly technical level between the federal and all of the provincial governments, depending of course, on what their particular product interest is. For example, if we decide we should work out with Japan a more intelligent set of trade policy arrangements concerning copper mined in British Columbia and smelted and refined in Japan, or perhaps, even in British Columbia, it would be foolish not to work closely with the Government of British Columbia and its officials and, of course, the corporations that might be involved too. That is just part of the normal process of developing adequate instructions for the negotiators.

I think the provincial administrators face a very heavy burden of work in defining what their interests are and in expressing those interests, as these very complex negotiations proceed. The problem is one of getting sufficient knowledge together to provide an adequate base for the development of instructions. We have, I think, because the negotiations are more complex, set up more elaborate arrangements for consultation with the provinces, and those arrangements are beginning to work. I would expect that the officials in Ottawa will be seeing a lot of provincial officials at all levels and, indeed, officials from the delegation will come back and try to give some kind of first-hand report to the provincial officials from time to

time. The first such meeting, as I indicated earlier, is to take place tomorrow.

Senator Cameron: Do all of the provinces take advantage of the opportunity of making representations at these meetings?

Mr. Grey: I am advised that all provinces, with the exception, perhaps, of Newfoundland, have replied positively with respect to attendance at the meeting tomorrow. I would expect that they will all be involved, particularly in those aspects of the negotiations that affect their trade interests.

Senator Cameron: The Province of Alberta, of course, has a lot of interest in this matter.

Mr. Grey: Yes, and it has certainly been involved.

The Chairman: The Minister of Economic Development for the Province of British Columbia, Mr. Lauk, was the subject of a good deal of publicity in the Vancouver press when he publicly sought to have a British Columbia representative at Geneva and was turned down by, I presume, the federal minister, the Honourable Mr. Gillespie.

Senator Connolly: But he has this other avenue.

The Chairman: Yes, but he quite specifically wanted to have a representative at Geneva. The press did not treat him too kindly on it. As I recall, they raised the difficulty of trying to negotiate with ten different provincial representatives, all giving a regional point of view. It certainly would not work.

I think the refusal was a perfectly proper one on constitutional grounds, and also from the point of view of the negotiations themselves.

Senator Connolly: Do you ever hear of this kind of pressure being exerted by individual states of the United States—pressure to get involved in international negotiations? I do not hear about it. Are our people naive about this kind of thing?

The Chairman: Do you not think, Senator Connolly, that we have had a good deal of evidence over the course of the last few months to indicate that the individual states of the United States do not try to push into areas of federal responsibility, such as our provinces do? That would certainly be my feeling.

Mr. Grey: As a factual matter, senator, I have never heard of a representative of an American state turning up at GATT, or any GATT conference.

Senator Connolly: Or requesting representation?

Mr. Grey: I do not know who they would talk to if they did.

Senator Connolly: They seem to have a much more highly developed sense of what is appropriate.

Senator Carter: Along that same line, Mr. Chairman, you mentioned yourself the possibility that the provinces might frustrate any commitments made on behalf of Canada, and Congress has the ability to do the same with respect to commitments on behalf of the United States. Do these two possibilities affect the climate, or the tenor, or the atmosphere in which the negotiations are held? Is there a feeling that perhaps it is a bit fruitless because there is some uncertainty about whether commitments

made will be fulfilled? Does that have any or very much impact on the negotiations?

Mr. Grey: Perhaps I could answer that question by going back to the Kennedy Round. During the Kennedy Round the Senate of the United States, I think, passed a resolution urging the administration not to negotiate that part of their customs evaluation system, called, in shorthand, ASP. Nonetheless the administration did put that into negotiation.

They made an agreement which was conditional upon legislative action by the United States Congress. The United States Congress, by failing to take action, frustrated the agreement. They did not breach the agreement because the agreement was conditional. However, I think it is now felt that that action by the administration, in ignoring stated congressional opinion, was perhaps imprudent, and a good deal of the trade act is based on the lesson learned in that episode. It is quite clear that any agreement negotiated in the non-tariff field, where there is not a specific delegation of power to the administration, goes back, under the procedures set up under the trade act, for necessary congressional action. I think that necessarily means, senator, that in areas other than tariffs, where congressional action will be necessary for the United States to implement the agreement, other countries will, of course, make their undertakings conditional upon the United States being able to carry through in Congress, and there will be a whole series of conditional agreements in that sense. Certainly I would expect them to negotiate in that way.

Senator Carter: Would the same apply to Canada, with regard to conditional agreements?

Mr. Grey: Within the Cabinet system, our agreements will be conditional on the U.S. acting. If the government decides to adhere to an agreement and then finds that Parliament will not pass the legislation, it is in a position of having been defeated in the house.

Senator Carter: That was not my point. Parliament may very well pass the legislation, but having passed the legislation the provincial government may undertake to frustrate its implementation.

Mr. Grey: Let me deal with the provincial question separately. I was really looking at the parliamentary situation and the congressional situation. On the provincial situation, there are certain areas of provincial jurisdiction which are national with other countries. Certain countries allege that certain of the provincial liquor administrations have discriminatory marking-up practices. I hope I have said that sufficiently carefully—not to suggest that I believe it is true; I have merely said they allege it. It is clear that the Canadian government could not enter into a commitment which would bind those provincial administrations. We can use our good offices; we can try to persuade them; but in the end it is a complex legal question and it is probably impractical to think of trying to negotiate a commitment over the signature of the federal government which would really be effective in that area.

Again, a number of countries are concerned about the procurement practices of provincial governments. Procurement practices of provincial governments are not something that I will be empowered to negotiate about in Geneva unless the provincial governments somehow give their agreement. There is an analogous problem in the United States—

Senator Benidickson: Such as what?

Mr. Grey: The whole range of goods that are purchased by provincial governments, such as equipment for electricity generating facilities.

The Chairman: And such things, senator, as competitive bids. The local bidder automatically has a 15 per cent advantage.

Senator Carter: There are a number of ways in which they can frustrate a trade agreement.

Senator Connolly: We had a problem a few years ago in British Columbia with generators.

The Chairman: Yes.

Senator Carter: And, as you say, grants that they make to firms are conditional on their buying local materials.

I would like you to clear up a possible misconception on my part about the Kennedy Round. I have the impression that the Kennedy Round was a bit disappointing in that it did not achieve as much as was expected at the start. Part of the reason for that is because there was so much time spent in wrangling over rules and procedures, and also the propensity to make package deals over trade negotiations. Is that a correct impression?

Mr. Grey: The Kennedy Round was not completely successful, but it was a very substantial trade negotiation. Looking back, in purely Canadian terms, over the series of trade agreements, which I would have said started with the agreement under which we gave most-favoured-nation treatment to imports from the United States in 1935, that is the sort of big, important trade agreement and the first of the series of which the Kennedy Round was merely the last one.

The Kennedy Round looms pretty large for Canada by those comparisons. The reductions in tariffs by the countries to which we export goods were really very substantial. I do not know whether anyone has done a kind of post-mortem—such as: five years after, what does it look like? If so, I think you would find there are really quite a lot of Canadian firms which have increased their production, their exports, and become a good deal more efficient because of the better access to export markets which was negotiated in the Kennedy Round.

The hope of a really substantial and effective grains agreement out of the Kennedy Round was more or less aborted. The anti-dumping negotiation was not completely successful, but we made a good beginning in regulating the use of anti-dumping duties. I think we should address ourselves to it further in the present negotiations.

Compared to the negotiations since the early 1950s, the Kennedy Round looks pretty substantial. I would say it did not go all the way that the most ardent supporters of the Kennedy Round, and the salesman for the Kennedy Round in the United States, wanted. The Kennedy Round was central to the foreign economic policy of President Kennedy. It did not go that far, but I think it was a pretty substantial achievement, and a good deal of the success was due to the meeting of minds between Canadians and Americans. In the end, American negotiators said to Canadian negotiators, "Without the part played by Canada, the Kennedy Round would have failed." I do not think they would mind being quoted either.

Senator Carter: Do you think we actually achieved more in a multinational situation than we could have achieved bilaterally?

Mr. Grey: I have no doubt about that at all, sir. If you are prepared to reduce the tariff on a particular product, you will get more for it if all the countries which have an export interest in that particular product are at the table and are prepared to pay a share than if you negotiate with just one of them—for the almost simple arithmetical reason that you get more. Also, presumably, if everyone is there, you can make more adjustments in your trade policy. There will be greater opportunities open to you, and you can do more.

I think all countries find themselves in that position. What do you do, for instance, if supposing the United States has an interest in the export of a certain product to Canada and we feel that under certain circumstances we could reduce that tariff? Certain adjustments would have to take place; there would have to be an adjustment program; but in the end we would have perhaps a more efficient industry, a more specialized industry. Suppose we make that judgment—referring to a hypothetical case—you are negotiating only with the United States, and they have 40 per cent of the import market. You can really do a lot better if you have the Japanese and the community, and perhaps Mexico, which have the rest of the import market in Canada. If they are also at the table, you can strike a bigger bargain.

The Chairman: Get concessions from each one of them as opposed to only one.

Mr. Grey: Yes. Of course, every country is in that position—vis-à-vis all the trading partners. There is not any question that everyone can make a bigger bargain if everyone is at the table together. It is really that glimpse of the obvious that people had in 1946 that led to the multilateralization of trade negotiations. Pre-war they had been conducted in related bilateral negotiations. We negotiated with the United Kingdom; then we negotiated with the United States; there were subsequent negotiations with the United Kingdom and France; and it went on with a series of bilateral negotiations. We get more by having it more simultaneous.

Senator Carter: Is it not more difficult to make package deals in a multilateral setting?

Mr. Grey: No, it is not more difficult. For example, if I understand you correctly when you refer to a package deal, in the context of the Kennedy Round tariff negotiations a very substantial package deal regarding trade in lumber and forest products between Canada and the United States was negotiated, of course on a most-favoured-nation basis. It was negotiated between Canadian and United States representatives in the sense that it was a package about trade in that particular sector. I think it was probably easier in Geneva when it had all the momentum of a major trade conference. It did not hold us back in any way.

Senator Benidickson: Although I am not a member of the committee, my understanding is that in this session the committee is focussing on Canada-United States relations. With that in mind, I was wondering, from the standpoint of Canada's very important bilateral trade with the United States, what are the most important issues that are likely to be negotiated at Geneva in this particular round.

Mr. Grey: I would put very high on the list the evolution of a code about the use of countervailing duties. I regard the use by the United States of countervailing duties, as in the case of Michelin and its threatened use to other countries and other Canadian products, as a potentially very difficult issue. That is on the agenda in Geneva. Related to that there is the refinement of the GATT rules, about subsidies, in which I include such things as regional economic assistance programs and provincial programs, and of course the corresponding programs that other countries have, such as the United States DISC programs. These are closely related.

Senator Carter: What about value added taxes? Is that on the agenda too?

Mr. Grey: In the United States trade bill there is a direction by the Congress for the administration to negotiate better rules about what is called in the GATT jargon border tax adjustments; that is, levying at the border a tax equal to the domestic commodity tax, such as the value added tax. We have not yet had a meeting on that, although there were meetings about two years ago in GATT. It is not yet clear how much attention will be given to that. Certainly among other issues is the possibility of some sort of refinement of the GATT rules on escape clause action; that is, emergency action against imports of particular products. I would hope there would be something on improvement on the anti-dumping growth, which is clearly not satisfactory as it stands. Obviously a bargain about the reduction of certain tariff barriers, sort of cutting across that, dealing with some of the same issues in a commodity context, negotiations possibly of some agreements about trade in particular sectors, sectors of trade based on the exploitation of natural resources such as

non-ferrous metals; although it is early to say, possibly some improvement in, some liberalization of, the terms of trade in agriculture. That is the short list, and the main items.

Senator Benidickson: To what extent has the existence of this new round, this important round, shelved or delayed bilateral negotiations on some of these issues?

Mr. Grey: Neither the Canadian government nor the United States government appear to be giving up making representations to each other on issues that really cannot wait to be resolved, where the pressure is on them from the interests affected requiring some kind of dialogue to take place forthwith. However, where the issue involves rights and obligations set out in the general agreement, or which could conceivably be dealt with by additions to the general agreement, I think both governments feel there is something to be said for subsuming that on the agenda of the broad conference, that it may make it easier to deal with. As I said very early on, certainly from the point of view of the smaller countries that is an advantage if we have some allies in Geneva, if we are not going to be alone in the ring.

The Chairman: Honourable senators, it is getting close to 5.30 and we have kept Mr. Grey here a long time. Are there other questions?—I am at the end of my list, and if there are no other questions I assume we can now adjourn.

Mr. Grey, before adjourning formally, I would like to thank you for taking the time from a busy schedule to come here this afternoon. Thank you for the frankness and thoroughness of your answers. I know this will be of great assistance to us in our report.

The committee adjourned.



Government
Publications

FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*



Issue No. 18

FRIDAY, JULY 11, 1975

Seventeenth Proceedings Respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Deschatelets	Yuzyk
Hastings	

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of Proceedings of the Senate,
Wednesday, November 6, 1974:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put of the motion, it was—
Resolved in the affirmative."

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Friday, July 11, 1975
(21)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9:35 a.m. this day.

Present: Honourable Senators van Roggen (*Chairman*), Carter, Connolly, Grosart, Lafond, Macnaughton, McNamara, Perrault and Yuzyk. (9)

Present but not of the Committee: The Honourable Renaude Lapointe, Speaker of the Senate; and Honourable Senators Argue and Petten.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee; Mr. Peter C. Dobell, Director of the Parliamentary Centre on Foreign Affairs and Foreign Trade; and Mr. J. A. Dawson, Director, Economic Council of Canada.

The Committee continued its study of Canadian Relations with the United States.

Witnesses: Dr. André Raynauld, Chairman of the Economic Council of Canada; and Mr. John Downs, Economist with the Council.

Agreed:—That the last portion of Dr. Raynauld's prepared statement, entitled "A Practical Approach?", which was not read into the record, be inserted immediately following his opening remarks.

At 12:23 p.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Friday, July 11, 1975

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, you will recall that our last witness, Ambassador Rodney Grey, Canada's chief negotiator at the GATT, concluded the witnesses we were calling on the first phase of our study of Canada-U.S. relations, namely, the study of the mechanisms or machinery which exist to govern these relations between the two countries.

We are now entering upon the second phase of our study, namely, Canada's trading relations with the United States, and I might just make the aside here that this will be a study of Canada's trading relations with the United States in all forms, not just those aspects which have come to the forefront of the news since the publication of the report of the Economic Council yesterday having to do with tariffs and trade, although that will be a most important portion of it. We will be studying, of course, also those substantial areas of trade between Canada and the United States where tariff barriers do not apply and where there are separate problems having to do with resources, with agriculture and so forth.

All that aside, however, nothing could be more appropriate than that we should commence this study today with the evidence of Dr. André Raynauld, the Chairman of the Economic Council of Canada. As you are all aware, yesterday the Council made public its study on Canada's commercial policy, entitled "Looking Outward: A New Trade Strategy for Canada."

While the report deals with this new trade strategy in the context of the whole world, two-thirds of our trade, as members of this committee are well aware, is with the United States. So this report will have a significant impact on our studies during the forthcoming winter.

Dr. Raynauld stated yesterday, I believe, at his press conference, that he hoped that this report would stimulate a debate. We are certainly pleased to be the first debating forum for you, Dr. Raynauld.

Dr. Raynauld is a distinguished economist, as we all know. He graduated from the University of Montreal and from the University of Paris. He was then a professor of economics at the University of Montreal, joining the Economic Council and becoming its chairman in 1972. He is accompanied today by Dr. Dawson, a director of the Council.

We have had a slight delay in having Dr. Raynauld appear before us, but I am sure that we shall all agree that it was more than worth it.

Dr. Raynauld will make an opening statement, following which Senator Grosart and Senator Connolly will commence the questioning.

Dr. André Raynauld, Chairman, Economic Council of Canada: Thank you very much, Mr. Chairman.

Mr. Chairman and honourable senators, I am delighted to have the chance to speak to this committee today about the Council's recently published report on Canadian commercial policy. We believe that there is a need for wide-ranging public discussion of our national economic policies, not just with respect to particular questions about trade relations but as regards Canada's overall objectives as a country and how these objectives relate to our position in the international economy. Such matters of high policy must, of course, be considered essentially within a political context, and it is therefore very appropriate that I should be addressing a committee of the Senate so soon after the release of our work. It is particularly fitting, given the nature of the problems to which the Council's report has been addressed, that the Senate committee concerned should be concentrating at present on Canadian-American relations.

Two months ago I had the privilege of appearing before the joint committee of the House and the Senate on immigration, set up in connection with the Green Paper. I tried in my presentation before that group to look at immigration in the light of contemporary Canadian goals, which might or might not be the same as the goals that our forebears set themselves when they first sought to attract immigrants on a large scale a century ago, establishing a principle that has not been seriously challenged since. My thesis then was that one needed to go back to the fundamentals—to ask oneself what Canadians want of their country and will want in the future—before trying to articulate the purposes of anything as important as immigration policy.

The same is true of commercial policy, which of course has been closely bound up with immigration ever since they were featured as part of the same package of measures grouped under the National Policy of 1879. As we know very well, commercial policy arrangements have historically played a crucial role in determining the nature and structure of our industrial economy, the size of our population and where it is principally located, and many other factors of enormous consequence in shaping this nation. So it is that we feel the necessity to enquire, first, what are the aspirations that contemporary citizens hold as significant; and, second, what will be the main characteristics of the national and international environment within which such aspirations must be pursued in the years to come.

Without attempting to reconstruct the argument developed in the report, I may say that we approach this problem by way of a reassessment of the implications of two

basic and continuing Canadian objectives: national independence and national unity. We consider those twin concerns—which, I need hardly tell you, were very much in the minds of the founders of the old National Policy—and we find that in their modern guise they mean something rather different than they did in the years when that famous design for development was introduced. For those who started out policies of heavy immigration, western settlement, and the fostering of manufacturing industry, national independence meant resistance against direct U.S. military or political intimidation and the survival and development of a raw new territory; to us it means dealing appropriately with economic and cultural penetration from the United States, especially as it occurs through the medium of investment in Canada by foreign corporations. National unity, to the builders of railways and originators of the import tariff, meant forging an east-west link across Canada's immense geography literally to hold the country together; for us the problem of physical cohesion is solved, and unity means adequately satisfying the requirements of the various provinces and regions so that confederation may remain a workable political structure.

What we conclude from this examination is that the relatively protective commercial policy that we have inherited from earlier days does not really fit very well with the apparent needs of independence and unity in today's world. Protection encourages outside firms to set up plants in Canada in order to serve our market without having to pay the duty, and it also reduces the efficiency of domestic enterprises so that they are more vulnerable to competition from abroad. Whatever one may think about the economic merits of foreign investment, these effects can hardly be seen as supportive of our independence. With respect to unity, protection has tended to concentrate industrial development in the central provinces, especially Ontario, but to ensure that people right across the country pay more for their manufactured goods than they would otherwise have to. Such an outcome is bound to be less than helpful to the cause of national unity.

When one reaches conclusions like these, the advantages of a protective commercial policy start to seem very dubious indeed, because we have always understood that it was in order to achieve our political purposes that we paid an economic price. Needless to say, in terms of Canadians' desires for high and rising living standards, the protected economy is an unqualified detriment. Not only do import barriers raise the costs of goods we buy from other countries, but they permit economically inefficient production to be sustained in Canada, increasing the prices of domestically manufactured goods. One estimate of the cost of Canadian protection, although based on conditions prevailing some years ago, is that of the Wonnacott study, going back to 1962 or 1963, as far as the statistics are concerned on the effect of doing away with trade barriers on industrial products in a Canada-U.S. context. At that time the Wonnacott brothers estimated that it would amount to 10 per cent of Gross National Product, which is an enormous amount of money. There is little doubt that the figure has been modified since by tariff reductions under the Kennedy Round of trade negotiations and the elimination of import duties on motor vehicles covered by the Canada-U.S. auto pact. Even so, if we have been paying even a fraction of that kind of sum year after year in order to gain a political effect that has not, in truth, been achieved, it is clear that we must start to ask some very serious questions about Canadian policy.

From this introduction our report proceeds to look at the kind of world we will be entering in the 1980s and 1990s. Among several trends in the international economy that we examine, probably the most important are the following: the emergence of new economic giants—the European Economic Community and Japan—taking their place with the United States as huge centres of industry and major markets; the growth of regional trading blocs, notably in Europe but also in Latin America and elsewhere; the increasing significance of certain developing countries as producers and exporters of low-cost manufactured goods and the evidence that the number and effectiveness of these new industrial powers will multiply as the years go by; and the rising importance of multinational firms in world production and commerce. In looking at these trends we infer that Canada will increasingly be faced with the necessity to compete with very large and powerful economies, having free-access markets embracing hundreds of millions of people; that other competition will come from low-labour-cost nations of growing capability—what we have labelled “several new Japans”; and that much of this activity will be carried on through the agency of great multinational enterprises whose operations will dominate world output and trade.

We suggest that Canadian manufacturing industries are, on the whole, ill placed to succeed in this type of environment, because their production tends to involve small-scale and inadequately specialized plants or product runs—which of course is a direct result of our own and other countries' import protection. And so we explore the sorts of spheres in which a nation like ours might expect to concentrate to advantage in the world economy that is arising. There is little difficulty in isolating the primary industries as areas of great potential—perhaps even greater in the future than in the past—because of Canada's huge resources and fertile land and because of the efficient development of most output in those sectors. Likewise, one can see also that a whole range of service activities, which are essentially protected from outside competition by virtue of a completely domestic orientation, will continue to grow and flourish as is typically the case in advanced economies such as ours; services occupy over 60 per cent of our labour force today, and the proportion is increasing constantly. On the other hand, it is less clear what type of manufacturing output is suitable for Canadian specialization.

Although we do not attempt to specify exactly where Canada's “comparative advantage” will lie in this sector, we do indicate in which general types of pursuits we would expect to find it. They are what we have identified as the “knowledge-intensive” activities, by which we mean those undertakings requiring a fairly sophisticated level of training and skill in the labour force. Because we are, in present-day terms, a relatively small economy—and will remain so regardless of our commercial policy—we need distinctive and technically superior products that will find a place in the market even if their prices are a little higher than others. Because our labour costs in particular are bound to be far higher than those in low-wage countries, we must focus on areas of production where our more highly trained workers can help to achieve results not available in less developed economies.

It is also our belief that much of the appropriate “knowledge-intensive” activity should involve the output of intangibles rather than that of goods. That is to say, although a concrete product may be the final result of most industrial enterprise, in the modern economy a greater and greater

proportion of the overall effort required in its production is wholly cerebral and remote from the actual process of fabrication. This is the so-called "post-industrial economy", in which most of the work is productive of some kind of intellectual output—a research finding, a computer run, a sales program, a financial audit, an advertising campaign—related only indirectly to the manufacturing endeavour that may be our employer's ostensible purpose. The evidence suggests, we submit, that such efforts will not only loom larger in the overall activity of most enterprises in the future, but the division between them and the hand-labour processes will be geographically split.

Senator Connolly: Doctor, will you just give us an example, please, of what you refer to in that paragraph?

Dr. Raynauld: Well, perhaps the simplest example would be a program of research that could be conducted in relation to a particular project in an advanced country, and then, once the research conclusions had been reached, the production would actually be undertaken in a low-wage country of the world.

The post-industrial undertakings will be centred mainly in advanced nations which have the necessary educated and highly trained manpower, while the more conventional fabricating activity will be shifted to developing countries where labour is diligent but less skilled and very much less expensive. To a degree this new-style international division of labour is already occurring, and we are convinced that the trend will accelerate in the future.

How, then, should we find out more precisely which realms of industrial and post-industrial activity ought to be Canada's main fields in the manufacturing sphere? Should we institute an elaborate "industrial strategy", based on government studies, designed to entail a major federal involvement in the expansion of some activities and phasing out of others? The Council does not think that this is likely to be an effective approach, since all planning is fallible and centralized planning of anything as ambitious as this would be susceptible to all manner of shortcomings. On the whole, governments have not performed very well in this respect.

Our prescription is to let the market decide. Given that protection seems no longer to yield us any political benefit—indeed, rather the contrary—and that its cost in economic terms is so high, we conclude that we should eliminate this hindrance, to the greatest possible extent, so as to permit the economy to find its own areas of advantage. Most of the rest of the report is concerned with ways in which the removal of import barriers might be brought about—whether through multilateral negotiation under the GATT, variants of that method involving sectoral or other approaches, regional trading schemes, and so forth—and what would be the implications of each such course.

While it is clear that the greatest benefits that could arise from import liberalization would be achieved through a multilateral freeing of trade, on the broadest possible basis, there are a number of reasons why that objective may not be realized over the forthcoming period. Canada has been involved in several rounds of trade bargaining in Geneva since World War II, and the results, although useful, have come nowhere near to providing the justification for a thoroughgoing reorganization of our manufacturing industry. The outlook for the new negotiations appears similar: substantial progress in the dismantling of certain obstacles to world commerce will probably

be achieved, but there is little evidence for believing that import barriers will be effectively eliminated right across the board, so as to yield a genuinely open international trading environment.

Nevertheless, the Council urges that Canada explore vigorously the opportunities for maximizing free-trade benefits through whatever means may be available under the multilateral trade negotiating system. There is significant scope, despite the difficulties, for innovative approaches that might enable Canadian industry to obtain competitive status through a concentration on specialized output for large free-access markets at home and abroad.

If these efforts should be less than successful, we would be drawn into active consideration of various regional trading arrangements that might be available: with the United States, the European Economic Community, Japan, or possible combinations of these and other countries. The Council appraises many such options and reaches the following conclusions.

First of all, if our calculations are anywhere near correct, a trading community involving Canada and the EEC, or Canada and Japan, or all three of these entities, would promise only fairly small economic benefits to this country along with rather major costs. What is more, there seems virtually no prospect at all that either the EEC or Japan would be interested in a special arrangement with Canada, and a good deal of reason to suppose that the United States would be very much opposed.

Senator Connolly: To what?

Dr. Raynauld: To a special free-trade area between Canada and Japan or between Canada and the Community leaving the United States aside.

What emerges is the conviction that no regional trading partnership would be feasible and economically worthwhile for Canada unless it included the United States. An attractive possibility is, therefore, a multisided free-trade scheme embracing Canada, the United States, and either the EEC or Japan or both. Such an arrangement would give us almost all the advantages of multilateral free trade. There is, of course, no indication that an initiative along these lines is being contemplated, but the Council believes it could become an active possibility over the coming years and urges that the interest in such moves be exhaustively canvassed by the Canadian government.

In the end, however, we may be forced to recognize the implications of Canada's position, which may mean that ultimately the only option showing any significant indications of economic feasibility over the medium term is bilateral free trade with the United States. This alternative too may not be open, but it is perhaps more likely to become achievable in the next decade or so than the others. There is at least much to be said for a serious examination of such an idea as an economic arrangement, since it would be capable in principle of offering Canada a ready means of overcoming some major industrial shortcomings. The Council stops short of recommending that Canada should actually pursue the prospect of a free trade area with the United States, since our competence does not really extend beyond economic concerns to the political and other factors that are at the nub of this question. We feel it is up to Canadians themselves to reappraise their attitudes toward the notion of Canada-U.S. free trade, which has not been properly discussed for more than half a century. As the Council sees it, trade liberalization appears essential to Canada if this country

is to escape from its position of economic dependence and to establish an industrial capability that will permit it to thrive in the kind of world environment we are about to enter. Should there be no practical alternative to free trade with the United States, Canadians must be prepared to face this option with good sense and sound logic.

In any event, whether with the United States in a regional scheme or through some other route, we believe that Canada must achieve a substantially unprotected and unrestricted trading situation in the relatively near future so that it may grow beyond the status of a vulnerable semideveloped power to take its place among the most advanced nations. Our message is thus not that Canadians should abandon their traditional preference for multilateral negotiation and extracontinental relationships. Rather it is that we must achieve free trade as the *sine qua non* of a viable long-term economic and political destiny.

I think, Mr. Chairman, I might stop here rather than give further consideration to this subject in my introductory remarks. I say this because I am sure—and I know this from past experience—that the questions will cover those other important areas that I have not covered here, and perhaps it would be more to the point than just giving more general views.

Note: The last portion of Dr. Raynauld's prepared statement which was not read into the record is inserted at this point with the consent of the Committee.

But is not this proposal hopelessly impractical? Many of our existing manufacturing industries are not competitive in an open world market, yet they are major employers of labour and the principal support of economic life over important areas of the country. Would not a policy of free trade simply result in massive unemployment and a depression of gigantic proportions in Canada, as factories closed down and managers and workers moved to other countries to find new jobs? We do not for one moment believe so; indeed we consider that this idea is one of the most tiresome and hoary myths inhibiting sensible thinking in Canada today. Let us see how it compares with the facts and with the best available research on these matters.

First, we should note that the manufacturing sector, which is what we are concerned about, employs today no more than 22% of our total work force, and that this proportion is expected to decline significantly by 1980. Moreover, the proportion of the labour force protected by import tariffs of any consequence is even smaller: in 1970 about one sixth of all workers were employed in the production of goods with more than 5% import duties, and by now this share is probably down to about one tenth. Admittedly, some parts of the service industries are dependent on manufacturing, but the overall importance of this sector is much less than people tend to realize.

Second, and of immense significance, is the fact that birth rates are now falling very rapidly in Canada, so that some time in the mid-1980s the rate of growth in the labour force will begin to slow down sharply. Progressively, from that time until the end of the century, the numbers of people retiring from work will start to outweigh the numbers of new entrants, with the inevitable consequence that labour will become a relatively scarce resource. That is to say, whereas now we are enormously preoccupied with the problem of finding enough jobs for our rapidly growing labour force, within the next ten years or so we will enter a period when one of our major concerns will be labour shortage. Thus, even if some

manufacturing activities were phased out during a move to freer trade, the workers involved would have unusually promising opportunities for finding new employment.

What about the nature and extent of the displacement that might occur? Studies that have been done on the efficiency of Canadian industry make a clear distinction between the cost levels prevailing in manufacturing now, under conditions of protection, and those that would be possible if that protection were removed and plants were reorganized to take advantage of the opportunities for more specialized operations in a larger open-access market. The outstanding conclusion of that research is that very few industries, or firms within industries, would go out of business. Adjustments would take place *within* firms and industries, with some lines of production being greatly expanded and others abandoned, so as to achieve the increased specialization of output that is the key to greater productivity. But total closure of firms would be unlikely. Our report goes into some detail in indicating what would be the general dimensions and nature of this reorganization process and where the areas of greatest strength and weakness appear to lie. I think the evidence cited is rather reassuring to those who view this prospect in such habitually gloomy terms.

Conclusion

In a word, therefore, much of our report is devoted to a reassessment of our traditional, rather protectionist commercial policy, which it finds is inappropriate to our contemporary circumstances, and an examination of the needs of the future which confirms the belief that the existing policy should be abandoned in favour of a substantial measure of free trade. Time has allowed me only a hint, in this prepared presentation, of the various different options we explore to that end, but you can see that Canada's relations with the United States are very crucial to the problem as we see it. In any event, I feel that in many ways the most useful part of the document—especially for a parliamentary group like yourselves—is this deflation of the fallacy that protection is still necessary to Canada's historic political objectives, on the one hand, and required for the preservation of its people's livelihoods, on the other. These notions appear to us to be simply untrue and a source of much confusion detrimental to the country's best interests.

The Chairman: Thank you very much, Dr. Raynauld, for your opening statement. I quite agree that the subject is of sufficient interest and fascination for us all that the questioning will probably cover the spectrum of your report fairly thoroughly. Therefore, I will ask Senator Grosart to start the questioning.

Senator Grosart: Thank you, Mr. Chairman, and thank you Dr. Raynauld for coming before the committee once again. I regret that you are exposed to me at the start, just as you were the last time.

I find myself in some difficulty in questioning you about the report, because I find myself in agreement with everything you say except for one sentence on page 118. This causes me very great disappointment. It seems to me that it almost destroys the effectiveness of the report. You have repeated the same sentiment in the presentation this morning.

As background to my questions, perhaps I may summarize my concept of the report. You deal with limitations of the traditional protectionism, with which observations I

find myself in complete agreement, except that in my opinion the regional effect may be over-stressed in view of the fact, of course, that the centralization of industry existed and was well on the way long before we had a strong protectionist policy as developed in 1879. We did have a certain free trade situation even before the repeal of the Corn Laws in 1846 or the unilateral end to the reciprocity with the United States in 1862. However, it seems to me that these trends existed and we would have had the centralization of industry and the regional disparities even without a protective tariff.

After dealing with that, it seems to me that you set up a number of options. In a private conversation you remarked on my views with respect to the Department of External Affairs' famous three foreign policy options, which I believe I described as setting up straw men and knocking them down and opting for the last one. In my opinion, you have done the same thing, except that you have five straw men rather than three. You begin with (1) multilateral free trade, which is to me motherhood, because surely Canada has been pursuing that for many, many years and the international liberalization of trade has been our stated policy. Then you deal with what I think is an excellent phrase, (2) "multi-sided" free trade arrangements with the blocs when you suggest the possibility of a free trade arrangement with the EEC, Japan and the U.S., than arrangements with (3) Japan or (4) the EEC and finally (5) with the United States. You dispose, I think, very effectively the practically of the first four. Then it seems to me you come down very strongly on the side of bilateral free trade with the United States. You pretty well dispose of all the arguments, economic and political: the risks of termination, double adjustment, foreign ownership, the possibility of corporate non-tariff barriers and loss of Canadian identity. You actually sketch out the negotiations; you suggest we leave out agriculture and energy, which, it seems to me, would cause the major problem. You suggest an open-end type of agreement, a free trade area but not a customs union. These are all suggestions that you would put into the negotiations. You even suggest that there might be an International Joint Commission type of joint control. As I was reading it, I was saying, "yes, at last we have, as the title suggests, a *new* trade strategy for Canada. I know what is new; this is it." However, when I came to page 118—it was fairly late at night and my perceptions may not have been very good—I read as follows:

For these reasons, the Council does not propose that the government initiate formal negotiations at this time for such an association with the United States alone. Rather, we stand on the recommendations presented in earlier chapters.

When I turn to the recommendations in the earlier-chapters which are numbered 1 to 5, I do not think you would want to stand on those five alone. You would want to take in some of the other 30 or 40 (although they are numbered only to 23).

What are the recommendations that you say you are prepared to stand on? The first is the GATT negotiations; that we step them up. Well, as I have said, that is obviously motherhood. Then that we make initial unilateral reductions, but you immediately qualify that by saying, "the permanence of which would be conditional upon further substantial progress". Well, obviously we have been willing to do that at any time if we could get those conditions of further progress. Then you recommend in number 3:

... that, parallel with its participation in the current multilateral trade negotiations, the Canadian government actively explore the conditions under which Canada might join an open-ended free trade area with other interested countries. To this end, discussions should be held initially with the United States, the EEC, and Japan, with a view to establishing, before the end of this decade, an arrangement under which the barriers to trade in industrial products might be eliminated over a ten-year period—in accordance with an agreed method and schedule.

That seems to me to be a contradiction.

In recommendation number 3, which you are prepared to stand on, you say we should enter into discussion and you went a little further in your opening statement, but at page 118 you say you do not recommend "that the government initiate formal negotiations". Now, it seems to me that there is not a great deal of difference between entering into discussions and entering into formal negotiations.

Dr. Raynauld: The difference is there, of course, senator. You know the difference between the two. Our third option is not motherhood; we suggest that negotiations be initiated with the United States, with the European Community and with Japan in order to have a free trade area. This, in my opinion, is a very important recommendation and it is not at all inconsistent with the sentence you quoted at page 118, when we say that these negotiations should not be undertaken now with the United States government alone. There is a major difference between the two approaches.

Now, reflecting more generally, first I would like to say, senator, that you summarized the report very well and probably better than I could have done. It is, in my opinion, very true that we considered all the options that we could think of. We tried to assess them, and we do recommend very strongly with the first two recommendations that the multilateral approach that has been typical of Canada be pursued vigorously. I would think that it would be very desirable that such a course be moved from the motherhood category to something else. It is a pity that it should be considered as motherhood. It would change the world if it was possible to attain substantial trade liberalization through the multilateral route, and I do not think it should be minimized.

In my opinion, the Kennedy Round has been very important for world trade and it would seem to me that it would be desirable for Canada not to take it for granted that it would not work, not to take it for granted that it will take 50 years. Because Canada is, perhaps among all the countries of the world, that country which would derive most benefits out of this route, it should take the initiative, it should apply some pressure, it should endeavour to achieve some methods of obtaining results out of this general multilateral approach.

This being said, when we come to the second or third options, we consider several regional arrangements that would not place Canada in a bilateral arrangement with the United States. We think that that approach is more beneficial to Canada, in both economic and political terms, than a purely bilateral U.S.-Canada free trade area.

So it is that we come to this bilateral option—I think it is about the fifth on our list. We do not exclude at all the possibility that it might be considered. In economic terms, we say that the benefits to be derived from this option

would be about half of what we could get from free trade across the world, which is substantial. We also recognize, however, that there would be some political problems associated with a free trade area between Canada and the United States.

Those problems, to us, suggested two things. First, they suggested that we should investigate the larger options first, because even in economic terms they are more beneficial than just the Canada-U.S. free trade area. Second, we thought it would require some discussion in public to try to move public opinion a little on these questions, because it is our feeling that at the present time there are large segments of the population which would not be ready to go that route, probably because of the long history that this particular option has had in Canada.

It would be naïve to think that we could move just on the economic costs and benefits of an option like this. So we do recognize those political aspects. We do not claim that we have all the answers. Even if we had all the answers, if we want to be realistic we have to have the support of the Canadian people for any such fundamental change in our policies.

So we say that we recognize at the present time it would be difficult to do that. We say, "Let us try to look seriously and carefully at that option. Let us exchange views about the political aspects of that particular option."

It is very much a matter of perception, a matter of judgment, and, in the end, probably a matter of the will of the Canadian people as a whole.

Because of all these aspects, we have decided not to recommend at the present time that negotiations be started with the U.S. government alone. That does not exclude at all the advantages and the other courses we propose: negotiations with the United States and with other countries at the same time.

Senator Grosart: Perhaps I should explain that, when I used the phrase "motherhood," I was not referring to the fact of the multilateral free trade negotiations, because my view is that we have pursued that vigorously, or I do not know what our operation in the Kennedy Round was all about. I cannot think of a more vigorous stand than that which Canada took at that time and is now taking in connection with the Tokyo Round.

When I used the term "motherhood" I referred to your recommendation. Regarding recommendation three, I am very glad that you cleared that up, because, with respect, I think it may be ambiguous. I read it to say that you are suggesting discussions with these three existing blocs, if that is what they are, not merely to create a single bloc with them but to discuss the matter bilaterally. However, I am glad you cleared that up.

Would you not agree, Dr. Raynauld, that the only practical way to move toward bilateral free trade with the United States is by way of negotiation? Is it not true that the opening of negotiations is the only way we can test public opinion and perhaps educate it; because, surely, this is the whole story of the Economic Community, the Yaoundé story, and, more recently, the Lomé story, with 46 nations coming together and, in the course of negotiations, resolving these various political, cultural and other constraints?

Do you not think that if we started negotiations, we would bring this thing out into the open immediately and get somewhere?

Dr. Raynauld: It is possible, but you are in a much better position to judge than I am. Quite frankly, I do not think I am competent to judge the best way to carry the necessary support for a given course in policy. I would think it depends very much on circumstances.

I can only recall, however, that in 1911 this is exactly what happened. Negotiations did take place and an agreement was reached. It was, in fact, turned down by the Canadian people. So I am not absolutely sure that negotiations and moving Canada through political leadership would always lead to the best results. There are other cases, surely, that you could cite where that procedure was the best to follow. But I do not think I am a good judge on this ground.

Senator Grosart: I cannot think of a better one, but that is neither here nor there.

I have just a few specific questions. On the chart on page 49 of the report, where you are dealing with merchandise trade balances, could you indicate where the Canada line would go if it were extended beyond—at the moment it is two and a bit? Would that line now take a sharp turn down if we had the up-to-date figures for 1975?

Dr. Raynauld: Yes, I would think so.

Senator Grosart: Would it then follow much the same pattern as the American line, which drops so dramatically down, starting in the middle of 1970? Would it follow that kind of pattern?

Dr. Raynauld: It would go down, but not that much. What are the figures at the present time? Not that much. What is the merchandise trade balance now? I think it is about \$3 billion for 1975—or is it zero?

Senator Grosart: No. It is a huge imbalance. The Americans, in billions of dollars, dropped to six.

Dr. Raynauld: Yes. We are about zero now, but for 1975, if I am not mistaken, the prospects are that we will have a substantial deficit.

Senator Grosart: Two billion?

Dr. Raynauld: Mr. John Downs is here, and can speak on that.

Mr. J. R. Downs, Senior Economist, Economic Council of Canada: The merchandise balance in 1974, as I recall it, was somewhere around zero. The balance of payments deficit—that is, goods and services—in 1975, as a whole, appears to be in the order of \$5 billion. That is for goods and services alone. Of that deficit, \$3 billion to \$3.5 billion would be services. So something like \$1.5 billion to \$2 billion would be the deficit in merchandise trade, which would be comparable to the graph on page 49.

Senator Grosart: My question, Dr. Raynauld, is that if it drops, as we are fairly sure it will, to somewhere between \$1.5 billion and \$2 billion, do you see it very quickly following the American pattern and coming back up again? I think that is probably the most important question we could ask you at the moment. That is, without multilateral, multi-sided or bilateral free trade.

Dr. Raynauld: Yes. We do not expect at the present time, without changes in policy, that the deficit we are incurring now would necessarily be of a permanent nature. It has a lot to do with the American recession. If, as we now expect, the United States picks up in 1976, we would also

expect that this balance on merchandise, of goods and services, will become more favourable to Canada than in 1975.

There is a very large cyclical component to these changes. I think that would also apply to the 1975-76 period. Of course, it will also depend on how the adjustments will be made to the current situation—whether the rate of exchange is going to adapt to the current situation and also whether or not there will be capital inflows. If the rate of exchange were to go down as a result of capital inflows being less than they would otherwise be, that deficit, of course, would be corrected more rapidly than in other circumstances. It is mainly cyclical at the present time.

Senator Grosart: Would you say that the thrust of the whole report is that Canada is in danger of becoming the odd man out in an international era of inevitable trade blocs?

Dr. Raynauld: I would think that that danger exists, yes. It will not look as dramatic, perhaps, as the words would suggest. Things are very seldom dramatic in economic life. In my opinion, it would take the form of a situation which would not improve and would even deteriorate slowly year after year. This, I suggest, can be seen already. Since the beginning of the 1960s, our productivity performance has been very poor by international standards. All of the simulations and forecasts that we have made with respect to the Canadian economy suggest that there is no improvement in sight.

The fact that productivity has been so poor—it has been one of the lowest among several countries—suggests that our standard of living is at stake. It will not be possible to increase our standard of living as much as it would have been otherwise. This, I think, is one of the indicators of being left out, if you want to put it in those terms.

I do not think the situation will improve in the future in this respect. I think we will continue to maintain substantial strength in the natural resources field. I do not think there is any doubt about that. However, as far as the manufacturing sector is concerned, the Council expects more and more difficulties. There will be more industries involved in severe adjustments, whatever we do. For example, we know there are some industries now that are in difficulty. We have had to increase assistance in the way of tariff and non-tariff barriers just to maintain the pace of activity in those industries. These measures will be required more and more, whatever we do.

It is with such a view of the future, I think, that we must judge the kinds of policies that should be adopted—not necessarily on the basis of the past or on the basis of what we think ideally we should get. It will not be possible to maintain, for example, all of the industries that we presently have in this country. Regardless of what we do, that will not be possible.

The Chairman: You mean by that the variety of industries we have?

Dr. Raynauld: Yes, the variety. There are some industries which are experiencing more and more difficulty because of increasing competition from abroad, such as the textile industry and, perhaps, the shoe industry. In fact, it is the labour-intensive industries in Canada that are likely to be in difficulty as a result of competition from abroad.

Within those industries there are some activities that are more profitable than others, and the whole thrust of our report is that within those industries we should support those activities that have a future.

With a major change in commercial policy, we do not anticipate that whole industries would disappear or whole new industries would appear. Rather, it would take the form of specialization within certain industries. Dealing with the textile industry or the clothing industry, there are some lines that are highly profitable. If protection was reduced or removed, some of those lines would become even more profitable. As you are aware, production is not only of benefit to firms but can also increase costs to firms to the extent that protection also applies to inputs. To the extent that the textile industry is highly protected, the clothing industry is in difficulty, because clothing firms purchase textiles at a higher price than would otherwise be the case.

Senator Connolly: Because of tariffs.

Dr. Raynauld: That is right. In suggesting a change in commercial policy, we visualize adjustments in terms of increased rationalization and specialization within existing industries and firms. Again, we do not anticipate that some firms would simply close their doors. They will adjust to this change in commercial policy.

Senator Grosart: You make the point quite strongly that Canada is one of the few industrialized countries in the world which does not have automatic free access to a market of 100 million or more. Would it be fair to say that you are saying, in effect, that in the absence of international, multilateral free trade, Canada must, of necessity, join some bloc?

Dr. Raynauld: Yes, I think that is the essence of the Council's position. We should investigate carefully the possibilities of joining existing blocs in one from or another. That is precisely the position of the Council.

Senator Grosart: You also make a great deal of the problem of our small domestic market, the short runs, the lack of critical industrial mass, and so forth.

Perhaps I might refer you to the chart on page 54 of the report, which deals with the free-access markets of industrialized countries, on which both Sweden and Switzerland are dealt with. Both Sweden and Switzerland are countries that have even smaller domestic markets than we have, but they seem to have been able to penetrate the international markets in the very field—that is, sophisticated, technological innovation—that we are seeking to get into. What is the difference between the Canadian and the Swedish, Swiss or Netherlands situation in this respect? Why is the Canadian so-called "small domestic market," which the Swedes and Swiss laugh at, such a limiting factor in Canada and not in Sweden or Switzerland?

Dr. Raynauld: In the case of Sweden, the situation is entirely different. With very few exceptions, Sweden has free access to the European Community.

Senator Grosart: But long before it had that access it did not seem to have the problem of a small domestic market.

Dr. Raynauld: That is precisely the reason. It had a much more liberal policy in commercial terms than Canada has had, and it had access to the larger markets in Europe. Unfortunately, I do not know the situation with

respect to Switzerland, but in the case of Sweden, it is very clear. With few exceptions, it has free trade now in industrial products. I think there are perhaps two or three exceptions, one major one being in steel products.

Speaking generally, the Swedish case is a very interesting one. It is a small country that has not feared to compete with the larger countries of Europe, such as Germany, France or the United Kingdom.

Senator Carter: Is not part of the answer that Sweden's success is due to the fact that they had a better integrated industrial strategy and a better integrated science policy for innovation?

Dr. Raynauld: It is difficult to answer that question, but I would suggest that the ultimate test of success in fields such as research, development and innovation is productivity, and the ultimate test of that is competition from abroad. If you spend a lot of money on research, development and innovation but have not the kind of commercial policy to allow you to test whether you are successful or not and whether you can face foreign competition, it may very well be that you will never be able to achieve this reorganization. It is the Council's position that the way to reorganize industry and stimulate innovation, and to force enterprises to spend money on research and developing new products, new processes of production, is competition from abroad. I would think the ultimate test is whether you can compete in world markets. If you force your industries to compete, all the other things have to come in in one way or another. What starts first and what comes last I really do not know.

We in Canada spend some money on research and innovation. We have made some efforts at rationalizing our own industry, but it has never been done on a scale that a freer trade policy would give; it does not force industry to do that. I am also told that in Sweden they did not even wait for bilateral or multilateral free trade; they unilaterally reduced their own tariff barriers. It will be remembered that in our report we also consider such a course, of unilateral free trade. Theoretically speaking, it is possible to achieve most of the same results by moving unilaterally. However, we also think it comes low down the list of our preferences because of a number of considerations that we have put forward in our report.

The Chairman: Before the questioning proceeds, I wonder if I could interject this observation on the subject of Sweden. Before they had access to the Common Market on a free trade basis they had contrived, by a unilateral lowering of their own domestic tariff, to concentrate their industry in three or four multinationals—automobiles, steel and ballbearings, for which they are famous—and did not, like Canada, end up trying to make one of everything. Was this not a substantial difference?

Senator Connolly: Specialization.

Dr. Raynauld: It is a major difference, but it is our contention that you get that kind of result when you have free trade.

Senator Grosart: On the other hand, the Swedish penetration of world markets in sophisticated technological goods is fantastically diversified, so I am not sure that that observation holds up entirely.

Do you think a Canada-United States bilateral free trade agreement is at all feasible if we exclude agriculture and energy, as you suggest?

Dr. Raynauld: With reference to what, when you ask whether it is possible?

Senator Grosart: Do you think the Americans would even contemplate such an agreement if we say that agriculture and energy products are out, which is what you suggest?

Dr. Raynauld: I will say yes. The exclusion of energy and agriculture is perhaps a little more subtle than it appears.

Senator Grosart: I think that applies to many things in the report.

Dr. Raynauld: We exclude agriculture and energy from free trade very much as a tactical move, to start with. It will be noticed that in the recommendation on agriculture we do not suggest that agriculture should be left out of the movement entirely. Quite the contrary. We say that agricultural trade should be liberalized, but on a gradual basis, product by product or product category by product category, because in this industry the situation is very different from one sector to the other. Therefore, when we say that these two sectors are excluded, it means, really, that we do not abandon from the start all the cards we have in our hands. We would like to get some negotiations going on those sectors also. It would depend what kind of return we would get for those resources before we decided that we will allow free trade in these two sectors with no particular exception.

I think energy and agriculture are sectors where we would say to our partners that we are willing to examine the situation, but there are some special problems associated with these two sectors and we will first proceed with industrial products; after that, depending on the progress achieved, we will see how energy and agriculture will enter into the picture. I think these two sectors are excluded temporarily. I also think it is only fair to recognize that in all trade negotiations agriculture is always an exception; we do not expect that free trade in agriculture will occur tomorrow on a world basis. Therefore I think it would have been naïve on our part to say that agriculture could be treated as any other industrial sector.

Senator Grosart: So, unlike the European Community with its common agricultural policy, we would have a bilateral free trade agreement with the United States with an uncommon agricultural policy.

The Chairman: Before proceeding, I wonder if Dr. Raynauld would agree, and the members of the committee are agreeable, that we might include as an insert in these proceedings the last three or four pages of your notes.

Dr. Raynauld: Yes.

The Chairman: Is that agreed, honourable senators?

Hon. Senators: Agreed.

Note: (See insert at end of Dr. Renauld's opening remarks.)

Senator Connolly: Before I ask a question I would like to make a remark. First of all, I want to congratulate the Council. It seems to me that this is the kind of report that ideally was thought of as emerging periodically from the Council when it was set up. It is actually a proposal for a Canadian industrial strategy and a new pattern of world trading. Because of our great dependence upon our foreign trade, it seems to me to be one of the most imagina-

tive kinds of papers we have had in a very long time. I realize that up to now perhaps the Council has not been in a position to produce an overview of an industrial strategy, because there have been inhibiting factors in its operation up. I think this is a very stimulating, imaginative and challenging proposal to put before Canada, and I congratulate you, doctor, and your associates for what you have done.

I have three questions. One is historical, one is psychological, and the other has to do with the United States. I hope I am not being too much of an egghead by describing them in that way.

Historically, we know, of course, going back even before the Laurier-Taft negotiations, in the early days of this century for reciprocity between Canada and the United States, that we have always thought about free trade, perhaps because of the British influence on the trading patterns of the world of that time. What I would like Dr. Raynauld to discuss briefly, if he would, is the timing for a proposal of this kind, perhaps as contrasted with a similar modified, less universal type of proposal that emerged from the Taft-Laurier negotiations in the early days of the century. In other words, is this the time for Canada to be thinking about free trade? You know, Mr. King always avoided the words "free trade." He would talk about the comparative, "freer trade," or the superlative, "the freest possible trade," but he would never talk about "free trade." There is a very significant point in that sentence.

Dr. Raynauld: Yes, senator, this is a very perceptive comment. I would think that if you read through the report, you will find some of this as well in our report. We do not talk very often about "free trade". We talk much more often about "freer trade" and "trade liberalization". And this corresponds to reality, in the sense that we do not need to be ideological about it. We can have substantial benefits from trade liberalization, even if we do not reach the ultimate goal of free trade.

Perhaps the only point that we would like to make in this respect, in terms of the degree of trade liberalization, is that—and we say that in the report very forcibly, I think—we need deep cuts in trade barriers. We will not accept, as the realization of the thrust of this study, small cuts in trade barriers. That is because we have had those small cuts in trade barriers, we have made some progress towards trade liberalization in the 15 years, but this trade liberalization that has occurred has not been sufficient to induce change in the structure of the economy, has not been sufficient to induce a reorganization to get the industries on a different level of operation. So we say that we would need some very significant reductions in trade barriers before we would say we had really achieved what we wanted.

That being said, it is also true that we do not take a dogmatic view about free trade. I do not like too much some of the headlines I saw yesterday about free trade, in big type, because I think that it gives a flavour that does not exist in the report. We do not take a dogmatic view about that. This being said, I think I would want to answer the question, whether the circumstances are favourable to a re-examination of our commercial policy and with possibly a major change towards trade liberalization. I would think that the circumstances are favourable at the present time. I say that for two principal reasons.

The first one is that, in the last 25 years, as compared with the years of, say, the depression in the 1930s, we have

seen some of the beneficial results of less restricted trade the world over. We have had a relatively long period of very substantial progress up to the beginning of the 1970s. Therefore, for the first time perhaps in history we can show some results. We can look at the changes that have taken place and associate those changes with this general approach to a more liberal trade structure the world over. We can look at the success of Japan; we can look at the success of the European Community; we can look at the very substantial increase in world trade as compared with domestic production. We can point to the international co-operation that this liberal trade environment has given rise to. We can show that countries and economies are more resilient than they used to be to shocks in the financial spheres of activity.

There have been a number of crises that have been handled better than they would have been handled in the 1930s or before, because of these international relations that are much more important today than they used to be.

The second reason why I would think that the circumstances are favourable is the fact that countries are now engaged in negotiations through GATT, and the success of the Kennedy Round, which preceded this phase in trade relations and in international negotiations, has a lot to do with the fact that countries are engaged in negotiations. I would think that, all in all, the circumstances over the medium term are very favourable. It is a little unfortunate that in the very short term people might not respond as positively to a report like the Council's as they would have perhaps two years ago. The present recession is not particularly favourable to proposing to the people that we should remove trade restrictions and the level of protection that people benefit from now, in an atmosphere of unemployment. In the very short term, in other words, it is not too favourable.

But you do not change a trade policy overnight. We think that we should consider a relatively long transition period to implement such a policy, and I would think that the short-term considerations will not and should not loom very large in the minds of the people. I think people will realize that we are talking here today about a policy that will be implemented over a lengthy period and that the present situation may be very short-lived.

Senator Grosart: I wonder if Senator Connolly would allow me to make a comment, which I think he will like—that I became uncomfortable in reading the report, and more uncomfortable hearing Dr. Raynauld speak, because of all the good things he speaks of as "liberal" and "liberalization."

Senator Carter: It is natural.

Senator Connolly: It is just a fact of history. Senator Grosart will have his turn next.

Dr. Raynauld, perhaps you have touched the second question, which I described as psychological. I frankly have not read the report, but I have read a summary, and I read it as carefully as I could in the time available. What struck me was this, that the implementation of the proposal would call for a readjustment—certainly politically and culturally, because that is obviously implied, but also, economically, within industries it would call for an adjustment of great magnitude. In order for the Canadian people to accept this, there would have to be inducements put before them, as you would not doubt recognize, in

order for them to agree that the kind of strategy you suggest would ultimately benefit them.

I believe the obstacles Canada will have to overcome are comparable to the obstacles faced by people like Monnet when the idea of the European Economic Community was first formulated and as the Community developed. And yet those obstacles, so far as we can tell, have been overcome quite successfully. I think there is a comparison, and I think you alluded to it in the answer to the first question, but there is certainly a psychological problem for business, for industry and even for Canadian society, and it seems to me that that is a great problem.

Dr. Raynauld: Yes. Indeed, in the report we suggest dealing with this problem on the basis of a general approach, not only of objective measures of assistance to encourage the industries, the workers and the governments to look at the problems which might arise, but also of trying to involve the people in this program of assistance. We strongly suggest that provincial governments should be associated, that industry, labour and the local authorities be brought into the picture when it comes to their own areas, their own industries, so that they will look at the problems ahead of time and thus involve the people.

It would be quite a mistake if we were simply to say that, since there are so many hundreds of millions of dollars available to take care of assistance, if something happens something will be done about it. I think you put your finger on it when you said there was a problem of psychology involved here. Certainly, the European experience is quite revealing in that respect. As you indicated earlier, the Europeans had quite substantial fears. I was a student in France in the early 1950s. I spent three years over there. That sense of fear was widespread. People feared the changes that were about to take place. In France in particular they feared that competition from Germany would sweep away the French enterprises, that they would buy them wholesale. As it turned out, those fears were needless.

I think the basis of the European success was that they had a treaty to begin with and they built up their institutions right from the beginning.

Senator Connolly: You mean the coal and steel and the rest of it?

Dr. Raynauld: Yes. They proceeded gradually, and after about ten years they actually began to accelerate the process rather than the reverse because they had found that, contrary to their fears, there was little or no pain from adjustments at all. Moreover, they discovered that the major changes that they had feared would take place just did not exist. In other words, the French economy simply did not collapse in the face of German competition. The same held true for the smaller countries, which resisted quite well and developed their own capacities and abilities for competing.

Senator Connolly: That would apply to Italy.

Dr. Raynauld: Exactly. It would also apply to the Belgians in much the same way.

With that experience in mind, we can see that it is true that the contemplation of change does inspire fear and reservations in the minds of people, but the pragmatic experience is that once the thing is in operation these fears are discovered to be unfounded and needless.

It is for those reasons that we strongly stress the need for the process of adjustment through existing industries. We stress that because we believe that it is not just a semantic argument but that it is true that that will be the way the adjustments will take place, and that they will, therefore, minimize major shifts from one area to another and from one industry to another, and that they will sharply minimize the painful adjustments which people might otherwise have to make in their minds.

Of course, we recognize that in certain cases there will, unfortunately, be painful adjustments. We recognize that, and in order to combat it we say that we must formulate certain area redevelopment plans ahead of time and not simply proceed with trade policy changes before there are alternatives. Surely, if we plan correctly and carefully it will be possible to overcome most of the difficulties of adjustment.

Certainly, we do not propose to the people any dogmatic free trade theory. We are speaking of a free trade arrangement, or arrangements, which would be made by design, would be organized, negotiated. It would not be a haphazard arrangement by which one could say, "Well, we will pass a law saying 'free? trade' and the rest of it will just happen by itself." That is definitely not the approach we are taking.

As you can see from what I have said, we have focused considerable attention on the essential importance of this psychological aspect of the whole problem—that is, the psychological attitudes of people towards trade—and we are quite confident that the adjustments which will follow will not be substantial.

By way of comparison, you may recall that when the United States introduced DISC we expected considerable repercussions in Canada. In order to offset that, the federal government provided funds to help or assist industry. The fact is that only a small fraction of the available funds have, in effect, been used.

I believe you will find that several countries have had the experience, and this country certainly has had it several times in the past, that although there are adjustments to be expected, people tend to exaggerate the costs involved in making those adjustments.

Senator Connolly: Dr. Raynauld, on page 7 of your opening statement you make the following comments:

Should we institute an elaborate "industrial strategy", based on government studies, designed to entail a major federal involvement in the expansion of some activities and phasing out of others? The Council does not think that this is likely to be an effective approach, since all planning is fallible and centralized planning of anything as ambitious as this would be susceptible to all manner of shortcomings. On the whole, governments have not performed very well in such respects.

It seems to me that what you are saying there is that a strategy of this kind should not be government managed, but, of course, must be government stimulated. I think that that statement will find very broad support among the members of this committee. In other words, it is not the approach of the socialists to the strategy, it is a proposal for the marshalling of a national natural resource that we have in this country, within the free enterprise system.

Senator Grosart: It would get support from the Tory members of the committee.

Senator Connolly: I think it would get support from everybody, except perhaps the avowed socialists. I think, however, that this is very important. The fundamental philosophy of the concept of this strategy is the philosophy on which this country was built.

The Chairman: I do not think we want to test the post office in a free trade economy, Senator Connolly.

Senator Connolly: No, Mr. Chairman. I have one other question, and perhaps then I should stop.

We are here concerned with Canada-U.S. trade relations, and I think we should perhaps come back, as was done earlier, to the position as between Canada and the United States in the light of this proposal.

One of the things that I think should be adverted to—and it is only a very small aspect of it—at this very early time, right after the report has emerged, is this fact: we have tremendous resources in this country, but many of them are wasting, irreplaceable resources, such as mining, the oil and gas industries, and so on—and there are others, no doubt.

One of the things that I think we should be very clear about is that a proposal of this kind does not necessarily mean the exhaustion of these resources. It will mean that we can husband them and develop them in the interests of our own economy, as well as helping other countries of the world, including developing countries who have a need for them for purposes of their development. It is not a matter of a free trade deal involving the management and exploitation of our resources; it is a matter of our continuing to manage them the way we feel, in prudence, we should manage them, in the interests of the people of this country.

Dr. Raynauld: Yes, sir. I would like to make a comment along the line of yours. We believe that freer trade for Canada would need probably a lot more processing of our natural resources within Canada. This would certainly be in line with the stated objectives of the Canadian Government. We do not believe that under freer trade conditions we would accelerate the exploitation of our natural resources. Most of them, as you know, are already sold on world market in the raw form, with very little protection. So the change would come when we reduced not only our own tariffs, but also those of other countries, on the further processing aspects of our natural resources, and I think that is where the impact would be felt.

I would therefore think that we should not fear a major shift towards more natural resource development in Canada as a result of this kind of policy. I think it would be perhaps the best way to get at this further processing of our natural resources, given the access to other large markets for the products derived from them.

The Chairman: I think the chairman, as a westerner, might be allowed to say "Amen" to that.

Senator Carter?

Senator Carter: Thank you, Mr. Chairman. I would like, before I begin my questions, to compliment Dr. Raynauld on his presentation and on his report.

I find some difficulty in absorbing the figures in your report, Dr. Raynauld. You talk about the price that the Canadian people pay for protection, and you estimate that it is around 10 per cent of our GNP, or roughly \$15 billion.

Getting down to cold figures, two-thirds of all of Canada's exports go to the United States, and two-thirds of all

of Canada's imports come from the United States. That leaves one-third for the rest of the world with regard to exports and imports. Of those exports to the United States—those two-thirds—75 per cent, or three-quarters, already go in duty free. Sixty-seven per cent, or roughly two-thirds, again, of what we get from the United States comes into Canada duty free. That therefore leaves a rather smaller proportion of our exports on which, really, duty is levied, and which even then is only levied at somewhere between 10 and 15 per cent. In your report you are still excluding agriculture and energy, and I find it difficult to realize that the cost of this small proportion of our imports which are dutiable can really amount to the figure you mention, namely, 10 per cent of the gross national product.

Dr. Raynauld: Well, let me clarify one point. In my presentation I had to be relatively short, and I could not give all the qualifications I would have liked to give. The 10 per cent, however, referred to in my presentation, was taken from a study, which I referred to before, based on the situation at the beginning of the 1960s. Since then, as I also said in the presentation, there has been a substantial trade liberalization that has already occurred. In the report we say that the benefits from multilateral free trade would be at least 5 per cent of the GNP. We also say that if free trade was limited to the United States and Canada it would be about half of those gains, so that we are substantially lower than the 10 per cent when it comes to an estimate of the present situation, and the likely gains that we would make in the future out of this policy.

This having been said, the way we calculate these things is a little complicated, but essentially there are two components to the benefits that would be derived. One is the reduction in prices on our imports, and therefore, also, on the competing domestically produced goods. That estimate was made by Jack Young sometime ago, but it is still estimated to be between, say, 3 per cent and, probably at most, 4 per cent. The other source of benefit would come from the reduction in foreign trade barriers and the fact that we would be able to sell to those countries. The benefits at that point would take the form of higher real wages or higher productivity for our industries. When the Wonnacotts did their study they estimated this to amount to 6 per cent—the productivity component of the benefit—and we could probably reduce that estimate substantially to take account of the fact that there has been some trade liberalization already. But there again you have another 3 per cent or something of that order, and that brings you up to about, say, 7 per cent—that is, 3 per cent in reduction of price and 3 to 4 per cent in terms of increased productivity. That is the best estimate we have now, so we say at least 5 per cent. This is a very substantial amount because it does represent a major increase in the overall level and from that level after we will have the increases based on this higher level. So it is a substantial increase in the standard of living and real incomes of Canadians.

That being said again, I do not think we should try to be too precise about it. We think that it is a useful way to look at it, but it is also very imprecise and whether in fact it will be 5 per cent or 6 per cent or 7 per cent or 8 per cent is very difficult to estimate.

The degree of protection for our manufacturing industries now is perhaps a little higher than the impression that you gave in your statement, because we think—in fact we know, we have figures that show—it is 48 per cent of our manufacturing employment that is protected by 10 per

cent and more. Manufacturing as a whole represents 22 per cent of our labour force. So if you look at the number of people protected by our own tariffs you can multiply the 22 per cent of employment in manufacturing by this 48 cent, or half of the manufacturing industries that are protected by the 10 per cent level of protection and more, and then you say that it is about 10 per cent of the total labour force that is protected by at least a level of 10 per cent and more of protection. That is, I think, the best estimate of the level of protection in this country at the present time, and that is that 10 per cent of the labour force that would be affected by the change in policy. So even when we talk of substantial benefits, we are not talking of involving the great majority of our labour force. We are talking of 10 per cent of our labour force, essentially in manufacturing industries.

Senator Carter: Now, you talk about increased productivity and you foresee that the freer the trade gets, the tougher the competition and the better our productivity. Well, as you know, productivity has two elements; it has the capital investment element for better and more efficient machines; and it has the human element. I have the impression that in Canada our productivity is practically at the bottom of the list, along with the United States at about 2.3 per cent for the last year, which is practically nothing.

Senator Macnaughton: We are ahead of Italy.

Senator Carter: No, not this year. Italy has improved her productivity tremendously, three times as much as Canada this year. Is that not right?

Dr. Raynauld: I am not too sure about this year, but in the sixties Italy was about twice as high as Canada.

Senator Grosart: On annual increase is 2.3 per cent.

Dr. Raynauld: In Italy, I think, over the sixties it was 4.6 or 4.7 per cent.

Senator Carter: Where do you think the increased productivity will come from? From more investment in better machinery, or from the human element, or from both? I personally do not see very much improvement in the human element in productivity.

Dr. Raynauld: Speaking as an economist, I do not think that the human element is the preponderant factor in increases in productivity. The human factor would probably affect the level, but for increases year after year you have to count on something else, and so you count on capital investment. What the new trade policy would do in this respect would be to change the conditions of operations of firms. That would involve heavy capital investment to do the other things that would be called for under this new trading environment.

Now, going a little further than just capital investment, we think that this productivity would come essentially from reducing the number of commodities produced in this country, and for those that you keep, you produce on a much larger scale.

Senator Carter: In other words, economy of scale.

Dr. Raynauld: Economy of scale, but even in the absence of economies of scale, the fact that you shift from some lines of production that are more profitable to lines that are less profitable would increase productivity. So it would be mainly this reorganization effect that would

bring this increase in productivity, and that would be entirely consistent with the capital investment that would be required to achieve those changes.

Senator Carter: Going on from there, we have, as you pointed out in your report, a branch-plant economy and fragmented industry. I suppose we have umpteen refrigerator companies when just one could probably supply the whole domestic market. The tariffs are there to provide protection, and if you remove that protection and have freer trade, the natural thing for these companies to do would be to go back to the parent country. But if you bring in more sophisticated machinery to do the work of people, then you are getting away from labour-intensive industries to capital-intensive industries. So what is going to happen to our unemployment problem?

Dr. Raynauld: I am glad you raised this question because it is the main concern of everyone. What happens to unemployment? Again we assume that this process of reorganization will create some unemployment, but there are probably two reasons why this will not occur.

The first one is that we expect some increases in output by this trade liberalization, and we do not assume that we would keep the same level of output, and therefore moving from labour-intensive industries to capital-intensive industries would put some people out. It would increase output so that those workers who did move to more capital-intensive industries would be hired because of the increases in output.

The second and more fundamental reason is that we are now in the process of major changes in our demography and in our labour situation. We have for perhaps the past 100 years been dealing with a situation in which the rate of increase in the labour force has been very rapid. In fact, it has been among the most rapid of developed countries. We had typical rates of increase in the labour force of 3 per cent and over. Now all the indications are that around the beginning of the 1980s we will be faced with a very substantially different situation, in which the labour force will increase by half this rate. We have calculations which show that it will probably increase at approximately 1.8 per cent, rather than 3 per cent and more.

So at that time it will be very surprising if our problem is still that of excess labour. We rather think that we will face a period in which there will be shortages of labour, and perhaps that this change in trade policy would be welcome, simply for that reason, that we will have to find some ways of minimizing our labour resources because they will become scarcer than they have been until now. This re-organization would not lead to unemployment, but rather to a more efficient use of our limited labour resources.

Senator Carter: You indicated, in reply to questions by Senator Grosart and Senator Connolly, that you foresee this happening gradually, over a period of years. Senator Connolly used the term freer trade, gradual liberalization. Do you see it happening on a selective basis? You have already excluded energy and agriculture, which indicates some selectivity. Do you carry that selectivity further and see it being phased in on a selective basis, or on a gradual reduction of tariffs over a period of years, or both?

Dr. Raynauld: If we were in the context of multilateral trade reductions, we had in mind a gradual reduction in tariffs across the board, very much in the same manner as that of the European Community. They agreed to phase

out the tariffs and other trade barriers and said that they would do that at a rate of 20 per cent a year, for instance, over five years, or 10 per cent over 10 years. This is what we had in mind. We do not exclude that there might be advantages in considering other methods of phasing these reductions.

There are even certain industries in which people told us that they would prefer to have a very quick change rather than a phased reduction over a long period of time. They fear that if the commitments to reduce trade barriers are made over a long period they will never be sure whether the next phase will take place, or when. They fear that perhaps people will change their minds over the course of the period of time and, because of that, they would not undertake the restructuring that is needed.

I would think that, once we come to the implementation of a policy such as this, consultation should be carried on with industry and labour in an attempt to adapt the phasing to the actual situations in particular industries, which may differ. So I would not exclude the possibility that we might resort to several methods of phasing the reduction in trade barriers.

Senator Grosart: You seem to be in favour, particularly in the United States picture, of progress by industrial sectoral areas.

Dr. Raynauld: Not really, senator.

Senator Grosart: I say that because the government appears to have come out against it.

Dr. Raynauld: We have considered a sectoral approach to trade liberalization on the assumption that the other avenues would not be open. So it will be a kind of fall-back position. We say that that approach may be seen as a technique, such as I believe the government adopts in its negotiations with other countries, but that should not be confused with the ultimate purpose, which would be substantial trade liberalization.

Senator Carter: As you said, if it were dragged out over too long a period of time its effect might be lost. Suppose we had a relatively short period of time—five years, for instance—which perhaps would be reasonable, how do you see the branch plants reacting to that? As I mentioned earlier, the refrigerator industry, with all the small companies manufacturing such equipment, and electric ranges, would be involved. How do you see those reacting? Do you see them coming together in some sort of merger, or do you think the government should do something to encourage them to do so. Senator Connolly referred to incentives which might be provided by the government.

Dr. Raynauld: Yes, the government might attempt to assist the firms to re-organize. However, I would think that the major impetus would come from the trade liberalization itself. That is the big difference. Assistance will not be the main tool. It will involve assistance because the firms themselves will need to re-organize, and once they have decided that they must, at that point they will want, if possible, to obtain some help to achieve this re-organization as soon as possible and at minimal cost in terms of labour dislocation and other matters.

Now, what do I expect in terms of, for instance, the United States subsidiaries in Canada? This is very difficult and, in my opinion, it would be different from industry to industry. Generally speaking, we think that those subsidiaries will not close their doors, if only because they

have fixed assets which they will wish to save and they will wish to recoup their investments. We, therefore, think that for a long period they will choose to re-organize and specialize, in the same manner as Canadian firms, rather than close down. That may reduce the incentives which those subsidiaries had to set up in large numbers in Canada because of market considerations in the United States. So it is not impossible that with this new trade environment those subsidiaries might decide to merge and re-organize in that sense.

Senator Connolly: Do you mean, merge back with the parent or among themselves?

Dr. Raynauld: Yes, among the subsidiaries, because at that point it will seem difficult to justify, for example, having 10 plants in Canada, because the reason for them being set up like this in the first place was the existence of the tariff. So, if we remove the tariff, I think at that point they will take a different view as to whether each firm in the United States will want its own subsidiary. There will probably be some re-organization between the parent firms as it applies to the subsidiaries in Canada.

It seems to me also that the incentive to set up subsidiaries in Canada having been removed, there should be less new subsidiaries created in Canada, and more Canadian-based firms will develop more rapidly than has been the case in the past. There will be tremendous opportunities for Canadian firms to develop, and we think that over a number of years—if our assessment of the protectionist policy is right—that over the longer term there will be less U.S. subsidiaries in Canada and more Canadian-based firms developing abroad.

Senator Carter: Senator Grosart gave us a picture—and you also indicated this in your report—of the shape of things to come toward trading blocs. It is hoped that Canada will be able to work out some arrangement, to become part of some trading bloc that will give us access to a market of 100 million people or more.

That is fine so far as we are concerned, but where does that leave the developing countries? We have an obligation to them. They have to sell their products to us at a reasonable price in order to survive. They outnumber the developed world three to one, and they are getting pretty restless. How can we carry on this little club for ourselves, for our own benefit, and at the same time accommodate their aspirations?

Dr. Raynauld: The situation in this respect will depend on the tariff that would be set against those countries once those areas are constituted. So this is exactly the same problem as the European Community, having reduced the tariffs between themselves and having to decide what kind of external tariff they will keep. That level, and wall, can be higher or lower depending on economic considerations, and also on more general considerations as the ones you have just raised. It would be the same thing in this particular bloc.

We have taken steps in our recommendations to ensure that this will not be done against underdeveloped countries. We even go out of our way to recommend, especially in the case of regional trading schemes that might be adopted, to suggest that we should unilaterally reduce tariffs against underdeveloped countries. We even have a recommendation or two, which I think will be looked at as an alternative, in the sense that we suggest we might open our markets completely to some underdeveloped coun-

tries. The number of those underdeveloped countries that might be considered would be broadened if other developed countries like ourselves would be willing to do the same thing.

Senator Grosart: Have we not already done that under the general preferences?

Dr. Raynauld: Yes, to a certain extent. The idea would be extended in this general approach. The point is very well taken. We in the Council favour an open policy toward underdeveloped countries, not only for their own benefit but also for our own benefit. We cannot resist for very long this new international division of labour that I talked about in my presentation.

Senator Connolly: Mr. Chairman, I have a supplementary. It is really not a question but a correction. When we were talking about this, I said that as I understood the proposal it was not to be government managed but government stimulated. What I really wanted to say was that it should not be government managed but that the climate for the proposal to be worked out could and must be set by government. There is stimulation in the support that might have to be developed at times. What I am more concerned about is the fact that government should take its big hands off this development, except to set a proper climate, and let it be done within the economy itself, the private sector.

Dr. Raynauld: I share that view entirely. I think you put it very well. Governments have to set the rules. Once those rules are set, we must leave the major decisions, as to what kind of products we will eventually produce in Canada, to the market.

Senator Grosart: Perhaps we could get Senator Connolly back into the Cabinet.

Senator Macnaughton: Dr. Raynauld, like other honourable senators, I also feel it is a privilege to have you and your officials here. My questions are designed to obtain information. Even though they may at times appear critical, they are not so intended. I do not have the background knowledge to do that. However, I disagree with one of your statements, that perhaps this was the wrong time to bring out the report. I think quite the contrary, that the people in this country are very disturbed about these matters and your report could not have come at a better time. It will have the effect of a time bomb eventually. Anything that forces us to think at the present time and which gets us out of our self-satisfied status is to the good.

I would like to ask a question under the heading of centralized planning. At page 7 you say:

Our prescription is to let the market decide.

I presume you mean the market rather than the government. Yet the government is full of high-priced planners and experts, and their number is increasing every day. We are increasing the number and scope of our laws. For example, the Income Tax Review has brought a good deal of confusion generally instead of clearing it up. Although the Canada Corporations Act is a great improvement, nevertheless it will take several years to understand. The Foreign Investment Review Act may or may not be useful. The Bankruptcy Act, which is now under review, certainly has to undergo a colossal revision.

With regard to this increase in the number of our laws, the purpose is right but sometimes that purpose is not

fulfilled. We have increasing government control in every phase of business life. There is increasing bureaucracy and the expense that entails, using taxpayers' money for more and more regulations. and so on.

How do you arrive at the idea that the market rather than the government should decide these things, when we are gradually becoming more and more socialized by the minute?

Senator Grosart: Vote against them!

Dr. Raynauld: We do not claim to have looked at all the activities of governments. We have looked at one aspect, which is related to the incentives that can be given by governments to particular industries. On that point we take a rather strong view, that it is almost impossible for governments to "pick the winners", as the expression is often used, with regard to the kind of activity or industry that is likely to flourish in the future. It may be that this approach goes somewhat contrary to the general trend of increasing government involvement in economic affairs. If that is the case, so be it. That is our position.

Senator Macnaughton: I am very glad to hear it. You have spoken of economic blocs, the new giants such as the Common Market, the U.S.A., the Soviet system, the Japanese, and so on.

Senator Connolly: OPEC.

Senator Macnaughton: Yes; also oil and food resources, and so on. Yet have you considered the fact—my figures are only approximate—that in 1905 there were approximately 44 sovereign nations, and in 1975 there may be 140, 160 or more? On the one hand you have economic blocs evolving, and on the other you have sovereignties developing. There is bound to be a conflict. How do you regularize it?

Dr. Raynauld: That is a very broad question. I am not quite sure how to answer it.

Senator Macnaughton: I do not think you are alone.

Dr. Raynauld: No, I suppose not. I think the trend in world affairs in this respect is to try to build international institutions to—

Senator Connolly: —moderate sovereignty.

Dr. Raynauld: To a certain extent, yes. The United Nations is one international forum which might be conceived as a first step towards the institutionalization of foreign relations amongst larger and larger numbers of countries. If we were to move towards integration between countries in the economic field, towards trade liberalization, and also towards integration in the capital markets, thanks to the media, to the new technology in communications, and so forth—the cultural interpenetration between countries—it may be that in the end we would be able to recognize not only our own interdependence, and move accordingly, but also we might again find the kind of world that we had, not only at the beginning of this century but a few centuries back.

In the history of mankind we have had many periods during which, in fact, there were very large areas of the world that were under one government or, if not under one government, large areas which were in fact relatively open. At certain times in the history of Europe, that continent was more integrated than it is today.

It is not impossible that in the future we might see more of this rather than less. The difficulty is to find a way to have a balance between the legitimate aspirations of groups of people within their own countries, with the support of their own institutions and governments, and also the requirements of this growing interpenetration of markets, peoples and cultures.

I think it is a question of balancing the two forces that are at play now. I sometimes feel that, if we could pay a little more attention to the legitimate aspirations of people in given countries, we might make more progress internationally. If we could reduce the fear that people will be less and less involved in decisions that will affect them, by more efficient government at the local level, for example, perhaps they would be more willing to accept this growing interdependence that is necessary in a world such as we live in today.

Senator Grosart: A supplementary, Mr. Chairman.

Would you not say, Dr. Raynauld, that the development of these new trade commodity and political blocs is actually a function of the proliferation of territorial sovereignty?

Dr. Raynauld: I would think not. I think it is the realization that it is more and more difficult for any one country to isolate itself in the world today. We feel now, much more than was previously the case, the force of events in all parts of the world. I would rather think that this is the result of an increased sense of participation on the part of all countries in the world to common external events. This sense of participation brings governments to look at their relations and forces them to find institutions that would aid in making this interdependence work without hurting the peoples of individual countries.

Senator Grosart: That is what I mean. Are we not substituting new blocs for the British Empire, the Austro-Hungarian Empire, the French Colonial Empire, and so forth?

Dr. Raynauld: Yes. I misunderstood your first question.

Senator Grosart: That is why I referred to it as a function of the proliferation of territorial sovereignty.

Dr. Raynauld: Yes. I missed that.

Senator Macnaughton: Dr. Raynauld, coming from Quebec you would not expect me to avoid that noble province. I read the newspaper accounts of the effects of free trade on the textile industry, the shoe industry, the electronic business, perhaps the pharmaceutical business and the manufacturing business. What do you think might happen, particularly if Quebec wishes to be a smaller, independent political unit, when the trend is the other way? Have we not got enough problems without embarking on that course?

Dr. Raynauld: This is just an extreme case of the general proposition that I was trying to put forward earlier. Even if countries, whether potential or existing, want to be more autonomous, there are very strong external forces that will limit the degree of freedom of individual governments, of individual countries. To put it another way, more independence will be more costly in the future because of the influence that external events will have on particular situations.

Even if Quebec were to maintain its thrust towards more autonomy and, eventually, towards independence—

and that is far from being the case—I would think that those international or foreign influences would be maintained and would limit, to a certain degree, what that particular political entity could do.

Even large countries now are not free to do what they want. Even the United States, which is the strongest country in the world, finds it difficult to police the rest of the world. It is difficult to force other governments, other countries, to do what one particular country wants to do.

I do not think those forces and those trends towards increasing interdependence in the world will be suppressed. They will be present and will have an impact on the degree of actual freedom of action that a particular government might have—including Quebec, if that should come about.

Senator Macnaughton: There seems to be quite a bit of all-embracing criticism of foreign investment and foreign subsidiaries implied, if not stated, in your report. Arguing the other side for a moment, doesn't foreign investment attract capital into a country and leave it in the form of factories, and goodness knows what else? Foreign subsidiaries also import technology into Canada and even bring research which is highly developed in other countries and expanded here. If multinational companies can also expand the opportunity for Canadians in allowing us to reach other markets, why should we talk in terms of limiting this importation of capital assets?

Dr. Raynauld: In this report we do not necessarily take a negative view of foreign investment. We say that our protectionist policies have given incentives to foreign firms to come into Canada, as compared with the policy of free trade. In the report we say that we would remove those incentives. Personally, I believe that that would be a good way of removing such incentives.

There are both good and bad ways of looking at this problem. I do not think that any foreign country could object to having a trade policy that would be less favourable, say, to capital investment, or to foreign control of our enterprises, if it is made on the basis of more equitable rules than is the case at the present time. What we say here is that this foreign control of our enterprises has had some negative effects in Canada. We think of the Capacity to innovate and to manage large enterprises. Canadians, because of the present situation, have very often been left aside when it came to managing the large international or multinational corporations, because they have not been given the opportunity to develop their capacity and experience. This is one aspect of the foreign control of our enterprises that may not have been beneficial to Canada.

The other aspect that I would like to mention is the extent of foreign control. I would think that at a certain point, irrespective of the obvious advantages of each particular investment project, you begin to ask whether the sum of it all does not change the nature of the advantages that are received in each particular case. When you have a manufacturing industry controlled, as it is now, in the proportion of 60 per cent by foreign enterprises you begin to ask that question. Quite irrespective of the advantages that there are—and there is no doubt that there are advantages—in each case you look at the total picture and ask whether this is the kind of situation we want to have, whether it would be desirable if, not 60 per cent but 80 per cent or 90 per cent of our manufacturing industries were controlled from abroad, whether it would be a good thing for the country. I think the answer to that question would

be no. If you started from a situation in which about 5 per cent of our manufacturing industry is controlled from abroad and we are considering letting in an investment which would increase that to 6 per cent, one would say that these overall considerations have no bearing and you look at the merit of the particular case.

In this situation, I personally tend to think that even if you are very favourable to a particular foreign investment, even if there are some unquestioned advantages in getting a foreign firm to your country, in each case there is still the question of the overall results on the economy. It seems to me that if we could find some good ways of not providing additional incentives to increase the number of foreign controlled firms in Canada, it would be desirable.

Senator Connolly: To put it in a positive way: to encourage the generation of domestic capital to achieve the purpose of the foreign capital.

Dr. Raynauld: Yes, this is the other way.

Senator Connolly: That is a little hard to do.

Dr. Raynauld: It is the positive way to look at it. You consider whether it is possible, and under what circumstances, for Canadian savings, Canadian investment, Canadian entrepreneurs and managers to play a larger role in our economy. I do not think we need to be unduly concerned about this at the present time, because I personally think the trends are not towards a larger and larger increase in foreign control in our economy. I think that we now generate more domestic savings than before. We hope that by increasing the productivity of our industries we will need less capital than has been the case up to now. We defend the thesis in the report, that on one side, with a more abundant supply of domestic savings, with a requirement for capital investment that should be lower than it would be under present circumstances, this should lead gradually over time to a reduction in the extent of foreign control in Canada, still allowing, though, most of the benefits, in terms of technology and innovation, associated with foreign investment.

Senator Macnaughton: That is a natural development, is it not?

Dr. Raynauld: Yes.

Senator Macnaughton: A great many references have been made to Sweden this morning. Do you really think their trade policy is that successful? For example, is living in Sweden such a paradise, or is it rather dull and monotonous and a regulated existence?

Senator Grosart: No comment!

The Chairman: Is that the result of their trade policy or something else?

Senator Macnaughton: Trade policy affects the life of the people in a country. All you have to do is to go to Sweden, stay there and see the effect on the people.

Senator Grosart: See the girls.

The Chairman: That is in Denmark.

Dr. Raynauld: I like their trade policy. I do not think the extent of regulation in Sweden can be linked to the kind of trade policy they have adopted. This is a separate problem.

Senator Macnaughton: I am not so sure of the separation, but I must take the word of an expert.

Senator Petten: This morning we have discussed the United States, the European Common Market, Japan and developing nations. I am wondering if we should, for argument's sake, have this free trade area with the United States, and, if we did, how it would affect our relations in our trade with the U.S.S.R. and China. Everybody is well aware of our great wheat sales to the U.S.S.R. and China.

Dr. Raynauld: I feel rather strongly that even if we had a United States-Canada free trade area, our trade with the United States would not increase substantially. It is difficult to imagine a situation where you could move very much closer, when you already sell 70 per cent of your total exports to that country. I would not think that our exports to/or our economic relations with other countries would be affected very much because of the extent of existing integration between Canada and the United States. It is probably a paradox that we established a long time ago a protectionist policy designed to prevent this very substantial integration between Canada and the United States. We look at the situation now and see that it is one of the most concentrated types of trade relations that you can think of. Even if we were to have a United States-Canada free trade area, I would not think you would increase that concentration in our trade relations.

A more general answer to your question is probably to say that, again, it would depend very much on the level of tariffs against third countries. It is compatible to have privileged relations with some countries and still keep relations with third countries very much in the same situation as they might be now, or even improve those relations.

We have now very high tariffs against some underdeveloped countries and in some sectors. We have a very high level of protection that could be reduced, even if we were to remove tariffs entirely with the United States. In fact, it would be in our interest to do that, because one of the economic disadvantages in having a free trade area with one country is the trade diversion effect, the fact that you would be inclined to buy from your partner imports that you could get at much cheaper prices elsewhere. So it is in your own interest not to have a too high tariff against third countries, to minimize this trade diversion. Of course, at that point it becomes a matter of negotiation as to what you offer to your partner as against the offer to third countries. So it is a complicated business. Nevertheless, in general terms it is not necessary to assume that it would sever our relations with either underdeveloped countries or with the U.S.S.R. or China.

Senator Grosart: That has been the European Community experience.

Dr. Raynauld: Very much so.

The Chairman: While we do not have time to get into it today, we will be calling witnesses to put on the record clearly the distinctions between the free trade area and the common market. Our own outside tariff decisions would be entirely independent of those of the United States.

Senator Grosart: That, of course, is the thesis of the recommendations of a free trade area—open-ended—rather than a customs union.

The Chairman: Senator Petten?

Senator Petten: I have no questions.

The Chairman: We have kept our witness here now for two and a half hours. I do not want to rush any senators. I know Senator Grosart has another question, on the second round, that he would like to ask. I have one or two also. How is your time, Dr. Raynauld?

Dr. Raynauld: I am at your disposal.

The Chairman: We will try not keep you too long.

Senator Grosart: Dr. Raynauld, I would like to come to Chapter 13, which is entitled "Adapting to Freer Trade." I would like to make this comment, that this is the only place in the chapter titles and sub-titles that you use the word "freer". I was interested in your emphasis on this, but elsewhere six times you have used "free trade". It may be that when you put out a second edition, you will want to talk to your editor about that.

Dr. Raynauld: I tried hard!

Senator Grosart: You start the chapter headings with "trade liberalization", and then you go on to "free trade" and then you go back to "trade liberalization", and it is only in Chapter 13 that your editor is converted to your emphasis on "freer trade" rather than "free trade".

On Chapter 13, Senator Carter seemed to suggest that the time frame here, particularly in the Canada-United States relationship, might be three to five years. If I read recommendation 3 aright, and if it does not refer only to a United States-Japan-Canada bloc, you are thinking of a 15-year time frame. That is, as you say, by the end of this decade, it may be that we will get something going, and then it will be phased over 10 years. That is the kind of time frame you see?

Dr. Raynauld: Yes. We usually refer to this period as a period of transition and we usually mention the number ten. As between now and the beginning of this transition, of course we would have a few years probably before the countries could agree on such a course. So you are probably right in estimating that on the whole it might take 15 years.

Senator Grosart: In the chapter there is a very interesting table, at page 168, with some comments on page 169. The table is perhaps a little unsatisfactory, understandably so, because it is on 1969 figures with 1961 dollars. Nevertheless it is used as a basis for estimating the ongoing impact. It seems to me that you see a net loss, in gross national product terms, in the situation for some time. In the Canada-United States free trade situation, how long would we have that net loss situation? What would your estimate be?

Dr. Raynauld: It would never occur. This is an exercise in what we call the initial short-term impact of free trade. We try to look at the kind of compensating policies that would be necessary in order to correct this. The only purpose of the exercise is to show whether we are talking here of major compensating policies that would be needed in theory or whether it is a small amount. We have established here that we can recoup these losses with \$300 million, put it at \$500 million if you like, stimulation of the economy in order to neutralize this initial loss.

I say that this loss will never occur, because it is an exercise that assumes there has been no adaptation whatsoever. I am not even sure that the impact of the increase

in real income, as the result of the reduction in tariffs, is taken into account. It is a kind of a snapshot of the situation. We say, suppose it would be done overnight, suppose enterprises would not have had time to adjust to this, suppose productivity has not increased anywhere, what would happen?

As I say, the purpose of this exercise is to find out whether the orders of magnitude would be very large or would be relatively small. We were satisfied, after this exercise, that we are not talking about a major cataclysm, say, that would happen after that. But it would be quite easy to compensate for the initial reduction in GNE.

Senator Grosart: By the way, you use the GNE rather than GNP. But there would be an initial reduction if there were not political compensations?

Dr. Raynauld: That is right. We talk here about a compensating increase in government expenditures of \$300 million. Well, just look at the changes in government expenditures from one year to the next. Even without that, the changes are much larger than the \$300 million.

Senator Grosart: But you require other compensations even to bring you to zero GNE growth. One of the things is the depreciation in the value of the dollar. What do you see happening? You call it depreciation rather than devaluation, but what would be the situation with respect to the dollar?

Dr. Raynauld: If we were to move towards trade liberalization?

Senator Grosart: Yes, with the United States. That is the only one I am interested in because, as I say, the others are all straw men.

Dr. Raynauld: Up to a few years ago, we used to think that a move towards trade liberalization would end up by increasing the rate of exchange, for several reasons. We now think there would be a slight depreciation or devaluation in the Canadian dollar for a while, but only for a while. This is associated with or linked to the recent evolution in wage rates as compared with wages in the United States. We now show in the report that there is still a productivity gap of about 20 per cent between the two countries, and wages in the last five years have increased faster in Canada than in the United States. So those increases in productivity in Canada are more needed than they ever were, in order to maintain the kind of wage and cost relationships between the two countries. Because of that, we would expect initially a small depreciation in the Canadian dollar with respect to the United States dollar. That would very much ease the transition, until such time as the enterprises would have been able, first of all, to reduce their costs and to reorganize and then to have had the time to enter the U.S. market. And it will certainly take time to develop those markets and distribute facilities and so on.

Senator Grosart: Correct me if I am wrong, but my understanding of what you have said is that you see depreciation as, to use your own term, a "cushion" for the drop in GNE that would otherwise occur.

Dr. Raynauld: That is correct.

The Chairman: Dr. Raynauld, we have often thought of Canada's per capita wealth as being second only to that of the United States. From your studies do you know where Canada stands at the moment? Some people say we are in

third position now; others say fourth and I have also heard fifth.

Dr. Raynauld: I must say that at the beginning of our studies we paid considerable attention to that point. However, because of the changes in the exchange rates which have taken place in the last few years, it has become more and more difficult to determine exactly where we stand, and that situation changes every month. Bearing in mind the changeability of the situation, we took the view that it was undesirable to put much stress or importance on such a ranking. What is important is the evolution or actual trend over a period of time. Our position on that is strong: namely, that among advanced countries we are sliding backwards. Whether we are fourth or fifth at the present time is less important than the fact that at one time we were second.

The Chairman: And the movement is down, not up.

Dr. Raynauld: That is right. The trend is downwards. Canada is sliding down in the ranking of advanced nations. That will continue unless we do something about our productivity levels. It is essentially the result of our poor productivity performance during the 1960s, because that led to a readjustment of currencies. If you take the present currencies, in fact the rank of Canada is now lower than it used to be.

The Chairman: Would it be unfair if I were to ask you whether, when you first decided to look at this question and put your experts on to it and put their findings into the computer, you were surprised by the printout? Were you surprised by the first indications that free trade might be the answer?

Senator Connolly: You are talking about the free trade proposals?

The Chairman: Yes, the idea of starting to study whether or not we should have free trade and the fact that the first indications were that free trade was the answer.

Dr. Raynauld: No, we were not surprised, Mr. Chairman, because before we undertook our own study several other studies had already been done and we knew the general thrust of those studies. We knew the conclusions which existed up to that time. As a matter of fact, we would have been quite surprised if our own studies had come out very much against the previous good solid studies which had been done on the subject. So, no, we were not surprised at the result.

Indeed, we were more concerned at the beginning about how the solution would be implemented; we were more concerned with what modalities would be preferable, because that aspect of the problem had received less attention that the straight economic cost and benefit of free trade versus protection. So, you see, we were more concerned at the beginning with the modalities of application and with the implementation period, the general results which would follow in Canada by regions, and what the reactions of the people would be, and things like that.

The Chairman: One point of clarification. I refer back to the very beginning of Senator Grosart's questioning, when he referred to Canada's strong position at the time of the Kennedy Round in favour of general world liberalization of trade. My recollection is somewhat different, and that is that we did not take that strong a position at the Kennedy

Round, although I may be wrong on that point. We are, however, taking a somewhat stronger lead as a country in the Tokyo Round. What would your comment be on Canada's situation in that regard?

Senator Grosart: What I should have said, Mr. Chairman, is that we said we were taking a very strong position.

The Chairman: My question remains pertinent, then. Are we taking a stronger position at the Tokyo Round today than we did at the Kennedy Round?

Dr. Raynauld: That is a matter for evaluation and perhaps some personal judgment, rather than objective assessment. My own judgment about that is that there is still scope for more leadership on the part of Canada in the present round of negotiations. I believe that in the Kennedy Round we had such competent negotiators that I am not absolutely sure that in the end it has been to the advantage of Canada. We were very good negotiators in the sense that we obtained concessions from other countries, giving very little away in return. This is a personal opinion, as I say, but I believe that in the end it would have been better if we had given a few more concessions. It would have been more in the interests of Canada than what we ended up with, which was a tariff structure that was relatively higher, as compared with those of other countries, after the Kennedy Round than before. So I do not see this as being an absolute advantage to Canada.

Senator Grosart: That is a non-political statement.

Dr. Raynauld: Yes, if you will.

The Chairman: I have one last question. In your remarks you have referred, for purposes of comparison, to the advantages that the European Community has gained from free trade—the obvious advantages that nations with large populations such as the United States have. I am addressing myself here to the huge selling job that is going to be necessary for those of us who feel this is the right way to go, to persuade the Canadian people, so that the Canadian Government will change what I think has been its historic position.

I wonder what your comments would be with regard to substantial attention being paid by this committee to the nations of Europe outside the European Community entering into free trade agreements with the European Community, as I understand they almost all have. I refer specifically to Finland, Sweden, Norway—and I am not too sure about Switzerland, but I believe there are others. These nations, on the periphery of the Common Market, have all found it necessary—and I am assuming "necessary" would be the right term—to enter into free trade agreements with the Common Market.

Senator Grosart: "Freer" trade.

The Chairman: No, not "freer" trade. Free trade agreements have been negotiated by all these countries. I need only use the example of Finland entering into such an agreement, with three million people, with the Common Market with 250 million people, as being a much more startling thing to do than Canada and the United States having free trade.

Dr. Raynauld: Yes. I think it would be a very relevant experience to look at, in assessing the likely impact on Canada's economic position with respect to the United States. It is a startling observation to make, if we listen to the comments that are made in this country about free

trade, and which have been made for a long time, that Canadians seem to be very fearful of being able to compete with a country like the United States. When you compare that with the attitude of some of those countries in Europe, it becomes really surprising. Is it a lack of confidence in Canadian expertise and Canadian managing capability? I do not know what it is, but I have always been struck by this defeatist attitude in Canada when it comes to trade. I do not know why this should be the case. As you said, we now have had experiences elsewhere that have shown in very practical, concrete terms, that small countries can compete with large countries.

It is an illusion to think that the size of a country is by itself a determining factor in competition. We all know the classical theory in international trade that says that it is not the absolute cost that counts when it comes to competition but the relative cost, because there are always some activities in any given country on which it will be more advantageous to concentrate than on some other activities. So, starting from that proposition, it seems to me that it is

always possible for a country to improve its position by trading with other countries, and why people would take a rather negative view when it comes to trade liberalization is something that has to be investigated. Perhaps we would understand more after a period of serious discussions about these things than has been the case up to now. For one, I really do not understand why.

The Chairman: Well, Dr. Raynauld, I should like on behalf of the committee to thank you very much for agreeing to come before us, at what must be a very busy time for you in view of the fact that you published your report only yesterday. I thank you also for the frankness of your answers to our questions.

Let me add that I shall be very much surprised if, after we have continued our studies for a few months next fall and into the winter, we are not after you to come back again to present your views and to explain some of the elements that we shall have gathered by that time. Again, thank you very much indeed.

The committee adjourned.



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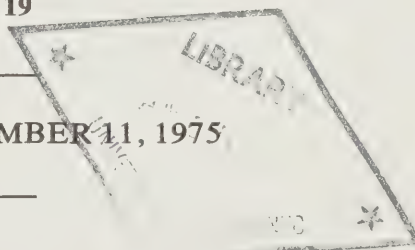
FIRST SESSION—THIRTIETH PARLIAMENT
1974-75

THE SENATE OF CANADA
PROCEEDINGS OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable GEORGE C. van ROGGEN, *Chairman*

Issue No. 19

THURSDAY, DECEMBER 11, 1975



Eighteenth Proceedings Respecting:
Canadian Relations with the United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable George C. van Roggen, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lafond
Barrow	Laird
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Rowe
Croll	Sparrow
Hastings	Yuzyk

Ex Officio Members: Flynn and Perrault.

(Quorum 5)

Order of Reference

Extract from the Minutes of Proceedings of the Senate,
Wednesday, November 6, 1974:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator van Roggen, seconded by the Honourable Senator Riel:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States;

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine;

That the papers and evidence received and taken on the subject in the preceding session be referred to the Committee; and

That the Committee have power to sit during adjournments of the Senate.

After debate, and—

The question being put of the motion, it was—
Resolved in the affirmative.”

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, December 11, 1975
(24)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9:35 a.m. this day.

Present: The Honourable Senators van Roggen (*Chairman*), Carter, Croll, Grosart, Lafond, Macnaughton, McElman and McNamara. (8)

In attendance: Mr. P. Bawden, M.P.; Mr. Ed. Lumley, M.P.; Hon. Martin O'Connell and Mr. Jacques Trudel; Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

WITNESSES:

Department of Industry, Trade and Commerce

Mr. T. M. Burns, Senior Assistant Deputy Minister—Operations;

Mr. Charles Kelly, Assistant Director, Western Hemisphere Division;

Mr. C. J. Wenaas, Chief, Canada-U.S. Division, Macro-Economic Analysis Group;

and

Mr. T. R. G. Fletcher, Assistant Deputy Minister—Tourism.

Mr. Burns tabled a document entitled "Canadian Commodity Trade with the United States—1965 to 1975"

Agreed: That the above-mentioned document be included in the Committees' printed proceedings at the point of presentation;

Agreed: That other documents, which were tabled and referred to during the presentations of the witnesses, may be included in the Committees' printed proceedings, as may be decided by the Chairman.

At 11:08 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, December 11, 1975.

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

Senator George van Roggen (*Chairman*) in the Chair.

The Chairman: Honourable senators, as you know, we have to adjourn at 11 o'clock this morning because the Senate is sitting, which means that we will have to crowd the evidence of the witnesses into little more than an hour and a half.

If I may recapitulate for a moment, the committee has been sitting *in camera* for the last several weeks considering the first volume of its report covering its Canada-U.S. study, the first part of that study being the institutional relationship or, in the vernacular, the mechanisms existing between the two countries for conducting our relations. Having concluded that part of the study, we now move on to an intensive study of Canada-U.S. trade relations. Indeed, in this part of the study we heard the first witness last July, namely, Dr. André Raynauld, the Chairman of the Economic Council of Canada, at the time of the publication of the Council's report, "Looking Outward. A New Trade Strategy for Canada."

I should like to make the point to the members of the committee that we will be looking at our trading patterns with the United States in their total concept, and I say this not so much for members of the committee as for members of the press and others, but this study should not be thought of as just an examination of Dr. Raynauld's report, which dealt mainly with the manufacturing area and the subject of tariffs as they affect that area. Naturally, that would be an important part of this study, but in our total trade with the United States, of some \$40 billion, half, at maximum, is in manufactured goods, and, of that, two-thirds relates to the Auto Pact. You realize I am using rough figures; possibly we will hear these figures being given in more detail this morning. Only a comparatively small percentage would be affected by Dr. Raynauld's report, and we wish to look at the total picture. The total picture of trade will go even beyond trade and goods into tourism and financial exchange. I just wanted to make those points so that we would have the report of the Economic Council in proper context.

I should point out to the committee that I took the liberty of inviting on your behalf members of the Canada-U.S. Interparliamentary Group to attend the meeting today as they might find it interesting since it is immediately prior to their visit to the United States in January for the next meeting of the Canada-U.S. Interparliamentary

Group. Many of them have their own committee assignments this morning, but some of them have expressed the desire to join us later this morning, and they may well do that. In any event, we will certainly make available to them the briefing papers.

I should like to welcome this morning as our principal witness Mr. Thomas Burns, Senior Assistant Deputy Minister, Operations, Department of Industry, Trade and Commerce. I will just quote from our letter to Mr. Burns some of the things we have asked him to touch on this morning: Recent Canada-U.S. trade figures and trade balances. Components of that trade; that is, what amounts and percentages are involved in energy trade, food, et cetera, in considerable detail. Details of trade by stage of fabrication; also what definitions are used in categorizing products as processed, semi-processed, or manufactured: for example, when does "lead" cease to be a raw product and become "processed"?

We asked Mr. Burns to provide an analysis of the amount of Canada-U.S. trade that is free under various arrangements, and what proportions of raw, semi-processed or manufactured products traded are non-dutiable. We asked him for a breakdown of the auto pact trade since its inception, including deficits and balances on parts and accessories as well as cars and trucks; also what percentage it represents of total Canada-U.S. trade and of trade in manufactured goods. We asked for figures for trade under the Defence Production Sharing Agreements; and tourist trade figures, since the Canadian government office for tourism also comes under the Department of Industry, Trade and Commerce.

Next week, in the same area of statistical information, we will be having witnesses from Statistics Canada.

I would like to welcome this morning, along with Mr. Burns, Mr. Wenaas, Mr. Kelly and Mr. Fletcher who will be assisting him in this presentation. Again, Mr. Burns, I must apologize for asking you to try to crowd your presentation into the time remaining before 11 o'clock.

Mr. T. M. Burns, Senior Assistant Deputy Minister (Operations), Department of Industry, Trade and Commerce: Thank you very much, Mr. Chairman.

To break the work in two I will deal with the question of our trade in goods, and Mr. Fletcher, who is the Assistant Deputy Minister in charge of tourism activity, will make a presentation in regard to our tourism trade, if that is agreeable to you, Mr. Chairman.

We have distributed this morning a series of tables and graphs, and before I start my general comments I might just draw your attention to the tables and explain the significance of each of them, if that is agreeable.

CANADIAN COMMODITY TRADE WITH THE UNITED STATES1965 - 1975

Department of Industry, Trade and Commerce

December 11, 1975

TABLE OF CONTENTS

Table 1	- Canadian Trade Balance With United States by Main Categories 1965-1975 to Date
Table 2	- Canadian Domestic Exports to the United States, by Leading Commodity, 1965-1975 to Date
Table 3	- Canadian Imports from the United States by Leading Commodities, 1965-1975
Table 4	- Canada-United States Trade Balance in Automotive Products, 1965-1974, 1975 to Date
Table 5	- Canadian Exports by Major Countries and Regions, 1965-1975
Table 6	- Canadian Imports by Major Countries and Regions, 1965-1975
Table 7	- Canadian Exports by Major Countries and Regions - Excluding Automotive Goods, 1965-1975
Table 8	- Canadian Imports by Main Countries and Regions - Excluding Automotive Goods, 1965-1975

TABLE 1
CANADIAN TRADE BALANCE WITH UNITED STATES BY MAIN CATEGORIES 1965-1975 TO DATE

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Jan.-Sept. 1974	1975
	(millions of dollars)											
Live Animals, Food, Feed, Beverages and Tobacco												
Exports	488	507	476	549	620	689	672	757	1,015	877	644	637
Imports	385	414	450	469	526	516	540	656	992	1,237	890	975
Trade Balance	103	93	26	80	94	173	132	101	23	-360	-246	-338
Crude Materials, Inedible												
Exports	1,019	1,130	1,192	1,378	1,379	1,633	1,741	2,014	2,762	5,055	3,637	3,802
Imports	491	506	512	536	452	535	577	644	780	1,075	784	1,001
Trade Balance	528	624	680	842	927	1,098	1,164	1,370	1,982	3,980	2,853	2,801
Fabricated Materials, Inedible												
Exports	2,533	2,806	2,871	3,403	3,642	3,672	4,012	4,766	5,832	7,234	5,421	4,989
Imports	1,350	1,482	1,495	1,581	1,912	1,915	1,981	2,233	2,824	4,203	3,131	2,932
Trade Balance	1,183	1,324	1,376	1,822	1,730	1,757	2,031	2,533	3,008	3,031	2,290	2,057
End Products, Inedible												
Exports	969	1,769	2,771	3,864	4,943	4,986	5,698	6,412	7,457	8,033	5,750	6,138
Imports	3,578	4,452	5,329	6,264	7,207	6,820	7,733	9,194	11,695	14,442	10,409	12,066
Trade Balance	-2,609	-2,683	-2,558	-2,380	-2,264	-1,834	-2,035	-2,782	-4,238	-6,409	-4,659	-5,928
Special Transaction-Trade												
Exports	24	23	23	37	31	27	28	43	44	68	32	42
Imports	241	281	236	220	148	119	120	151	192	249	162	202
Trade Balance	-271	-258	-213	-183	-117	-92	-92	-108	-148	-181	-130	-160
Total Trade with U.S.												
Exports	5,033	6,235	7,333	9,230	10,614	11,007	12,151	13,992	17,129 ^r	21,325 ^r	15,484	15,608
Imports	6,045	7,136	8,022	9,048	10,243	9,917	10,951	12,878	16,484	21,306	15,377	17,178
Trade Balance	-1,012	-901	-689	182	371	1,090	1,200	1,114	645	19	107	-1,570

Dec. 8, 1975

Source: Statistics Canada, Monthly Summary

r: Revisions are available for totals only

(1) Includes packing for exported goods, re-usable or unclassified; contractors equipment and tools; shipments of less than \$100.00 each.

TABLE 2
CANADIAN DOMESTIC EXPORTS TO THE UNITED STATES, BY LEADING COMMODITY, 1965-1975 TO DATE

Commodity	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Jan.-Sept. 1974	1975
	(Millions of Dollars)											
Fish and fishery products	140	141	159	162	174	184	188	221	282	249	184	204
Whisky and beverages	115	128	142	158	183	177	180	203	224	188	138	169
Crude petroleum	280	322	398	446	526	649	787	1,008	1,483	3,408	2,483	2,262
Natural gas	104	109	124	154	176	206	251	307	351	494	338	739
Iron ores and concentrates	285	301	292	339	231	313	275	245	304	345	212	307
Aluminum	167	192	191	253	227	184	233	247	219	300	212	196
Nickel	207	192	221	242	230	331	280	308	325	375	268	310
Copper	79	158	190	206	149	162	179	202	259	308	251	120
Asbestos, unmanufactured	65	65	63	70	71	72	77	83	93	114	83	71
Rolling mill products	59	64	57	106	89	142	160	153	148	184	133	110
Lumber	343	350	358	509	560	460	681	1,018	1,285	900	754	566
Wood pulp	371	391	382	423	517	485	481	473	617	1,060	775	740
Newsprint paper	736	824	816	827	920	873	881	994	1,068	1,353	986	1,119
Fertilizers	96	114	124	125	130	178	185	197	219	340	242	270
Chemical elements and products	59	74	82	104	90	89	116	131	170	259	184	197
Farm machinery, tractors and parts	145	172	184	158	147	132	142	199	274	375	273	348
Non-farm machinery and parts	92	136	164	194	256	262	264	286	384	498	368	386
Automotive goods	231	841	1,587	2,483	3,355	3,331	3,946	4,478	5,125	5,308	3,692	4,039
Aircraft and parts	164	167	259	285	243	239	218	313	332	321	241	231
Communications equipment and parts	49	83	102	150	151	147	149	141	178	216	159	143
Office machines and equipment	11	14	23	24	46	66	117	151	135	118	80	103
Total Listed Commodities (a)	3,798	4,838	5,918	7,418	8,471	8,682	9,790	11,358	13,475	16,713	12,056	12,630
Total Domestic Exports (b)	4,840	6,028	7,079	8,923	10,274	10,641	11,683	13,575	16,612	20,629	14,935	15,157
(a) as a % of (b)	78.5%	80.3%	83.6%	83.1%	82.5%	81.6%	83.8%	83.7%	81.1%	81.0%	80.7%	83.3%

Dec. 5, 1975

Table 3 (cont'd)
Canadian Imports from United States by Leading Commodities, 1965-1975 (cont'd.)

Commodity	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Jan.-Sept. 1974	1975
	(Millions of Dollars)											
Communications equipment and parts	125	195	202	212	264	243	289	388	505	581	427	398
Scientific equipment and parts	120	148	167	228	273	262	247	262	305	359	177	228
Office machines and equipment	87	131	154	156	223	260	298	372	398	475	353	381
Newspapers and other printed matter	131	139	159	170	198	203	214	228	259	308	227	288
Photographic goods	69	79	100	98	112	116	125	147	190	245	186	188
Total Listed Commodities (a)	4,243	5,095	5,912	6,829	7,979	7,674	8,521	10,021	12,750	15,865	11,328	13,210
Total Imports from U.S. (b)	6,045	7,136	8,022	9,048	10,243	9,917	10,951	12,878	16,484	21,306 [*]	15,285	17,178
(a) as a % of (b)	70.2%	71.4%	73.7%	75.5%	77.9%	77.4%	77.8%	77.8%	77.3%	74.5%	74.1%	76.9%

Note: Revisions are showing in totals only

* Tractors decreased by 59 millions of dollars.

Dec. 5, 1975

TABLE 4

CANADA-UNITED STATES TRADE BALANCE IN AUTOMOTIVE PRODUCTS 1965-1974, 1975 TO DATE

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974 ^R	Jan.- June 1974	June 1975	% Change
(Millions of Dollars)													
<u>United States Imports from Canada</u> [#]													
Cars	74	342	748	1,204	1,662	1,538	1,943	2,046	2,271	2,540	1,241	1,454	17.2
Trucks, etc.	21	146	247	399	605	589	593	706	789	867	413	470	13.8
Parts	151	389	512	846	1,037	1,127	1,496	1,778	2,171	1,953	939	879	- 6.4
Tires and tubes	4	9	13	9	5	15	8	22	68	64	29	26	- 10.3
Total	250	886	1,520	2,458	3,309	3,269	4,040	4,552	5,299	5,424	2,622	2,829	7.9
<u>Canadian Imports from United States</u>													
Cars	94	289	588	809	792	659	963	1,059	1,438	1,621	793	1,013	27.7
Trucks, etc	60	95	152	189	263	275	363	495	644	896	439	468	6.6
Parts	797	1,093	1,314	1,820	2,307	2,107	2,448	2,873	3,565	3,893	1,973	2,226	12.8
Tires and tubes	10	10	8	29	37	24	36	50	92	218	83	99	19.3
Total	961	1,487	2,042	2,847	3,399	3,065	3,810	4,477	5,739	6,628	3,288	3,806	15.8
<u>Trade Balance</u>													
Cars	- 20	+ 53	+ 160	+ 395	+ 870	+ 870	+ 980	+ 987	+ 833	+ 919	448	441	
Trucks, etc	- 39	+ 51	+ 115	+ 210	+ 342	+ 314	+ 230	+ 211	+ 145	- 29	- 26	2	
Parts	- 646	- 704	- 802	- 974	- 1,270	- 980	- 952	- 1,095	- 1,394	- 1,940	- 1,034	- 1,347	
Tires and tubes	- 6	- 1	+ 5	- 20	- 32	- 9	- 28	- 28	- 24	- 154	- 54	- 73	
Total	- 711	- 601	- 522	- 389	- 90	+ 204	+ 230	+ 75	- 440	- 1,204	- 666	- 977	

Source: Statistics Canada, Daily Bulletin of Sept. 12, 1975

[#] Following the agreement that the most accurate measurement of trade could be obtained by comparing the import statistics of each country, Canadian export values are derived from United States statistics of imports.

TABLE 5
CANADIAN EXPORTS ⁽¹⁾ BY MAJOR COUNTRIES AND REGIONS, 1965-1975
(CUSTOMS VALUATION BASIS)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Jan.-Sept. 1975
						(Millions of Dollars)					
United States	5,033	6,235	7,333	9,230	10,614	11,007	12,151	13,992	17,129	21,325	15,484
United Kingdom	1,185	1,132	1,178	1,226	1,108	1,501	1,395	1,385	1,605	1,382	1,374
E.E.C. (2)	636	645	689	762	855	1,206	1,109	1,144	1,539	2,087	1,471
Japan	317	395	574	608	626	813	831	965	1,814	2,229	1,726
Other Countries	1,596	1,918	1,646	1,798	1,687	2,293	2,334	2,864	3,333	4,633	3,384
<u>All Countries</u>	<u>8,767</u>	<u>10,325</u>	<u>11,420</u>	<u>13,624</u>	<u>14,890</u>	<u>16,820</u>	<u>17,820</u>	<u>20,150</u>	<u>25,420</u>	<u>32,177</u>	<u>23,447</u>
United States	57.4	60.4	64.2	67.7	71.3	64.4	68.2	69.4	67.4	66.3	65.5
United Kingdom	13.5	11.0	10.3	9.0	7.4	8.9	7.8	6.9	6.3	5.9	5.8
E.E.C. (2)	7.3	6.2	6.0	5.6	5.7	7.2	6.2	5.7	6.1	6.5	7.0
Japan	3.6	3.8	5.0	4.5	4.2	4.8	4.7	4.8	7.1	6.9	6.7
Other Countries	18.2	18.6	14.4	13.2	11.3	13.6	13.1	13.2	13.1	14.4	15.1
<u>All Countries</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Percentage of Total

(1) Including re-exports

(2) Original six

Source: Statistics Canada, Monthly Summary.

TABLE 6
CANADIAN IMPORTS BY MAJOR COUNTRIES AND REGIONS 1965-1975

CUSTOMS VALUATION BASIS

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>Jan.-Sept. 1974</u>	<u>1975</u>
	(millions of dollars)											
United States	6,045	7,136	8,022	9,048	10,243	9,917	10,951	12,878	16,484	21,306	15,377	17,178
United Kingdom	619	673	649	696	791	738	837	949	1,005	1,127	817	943
E.E.C. (1)	514	551	627	662	787	805	935	1,150	1,393	1,815	1,321	1,478
Japan	230	253	305	360	496	582	803	1,072	1,010	1,428	1,976	919
Other Countries	1,225	1,459	1,269	1,592	1,813	1,910	2,092	2,620	3,432	5,963	4,284	5,089
<u>All Countries</u>	<u>8,633</u>	<u>10,072</u>	<u>10,872</u>	<u>12,358</u>	<u>14,130</u>	<u>13,952</u>	<u>15,618</u>	<u>18,669</u>	<u>23,324</u>	<u>31,639</u>	<u>22,775</u>	<u>25,607</u>
Percentage of Total												
United States	70.0	70.8	73.8	73.2	72.5	71.1	70.1	69.0	70.7	67.3	67.5	67.1
United Kingdom	7.2	6.7	6.0	5.6	5.6	5.3	5.4	5.1	4.3	3.6	3.6	3.7
E.E.C. (1)	6.0	5.5	5.8	5.4	5.6	5.8	6.0	6.2	6.0	5.7	5.8	5.8
Japan	2.7	2.5	2.8	2.9	3.5	4.2	5.1	5.7	4.3	4.5	4.3	3.6
Other Countries	14.2	14.5	11.7	12.9	12.8	13.7	13.4	14.0	14.7	18.8	18.8	19.9
<u>All Countries</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(1) Original six

Source: Statistics Canada, Monthly Summary.

TABLE 7
CANADIAN EXPORTS (1) BY MAJOR COUNTRIES AND REGIONS - EXCLUDING AUTOMOTIVE GOODS, 1965 - 1975

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Jan.-Sept. 1974	1975
	(Millions of Dollars)											
United States	4,787	5,374	5,722	6,717	7,253	7,706	8,752	9,471	11,954	15,944	11,672	11,511
United Kingdom	1,181	1,129	1,175	1,223	1,101	1,496	1,386	1,382	1,602	1,896	1,377	1,371
E.E.C.	628	637	684	756	850	1,202	1,102	1,133	1,526	2,077	1,464	1,667
Japan	317	394	574	608	626	812	831	965	1,813	2,227	1,724	1,578
Other Countries	1,478	1,772	1,494	1,588	1,490	2,056	1,532	2,461	3,130	4,372	3,182	3,320
<u>All Countries</u>	8,391	9,306	9,649	10,892	11,320	13,272	13,603	15,412	20,025	26,516	19,419	19,447
	Percentage of Total											
United States	57.0	57.8	59.3	61.7	64.1	58.1	64.3	61.5	59.7	60.1	60.1	59.2
United Kingdom	14.1	12.1	12.2	11.2	9.7	11.3	10.2	9.0	8.0	7.2	7.1	7.0
E.E.C.	7.5	6.9	7.1	6.9	7.5	9.0	8.1	7.3	7.6	7.8	7.5	8.6
Japan	3.8	4.2	5.9	5.6	5.5	6.1	6.1	6.3	9.1	8.4	8.9	8.1
Other Countries	17.6	19.0	15.5	14.6	13.2	15.5	11.3	16.0	15.6	16.5	16.4	17.1
<u>All Countries</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Including re-exports

Source: Statistics Canada, Monthly Summary

TABLE 8
CANADIAN IMPORTS BY MAIN COUNTRIES AND REGIONS - EXCLUDING AUTOMOTIVE GOODS, 1965-1975

[illegible]

Source: Statistics Canada, Monthly Bulletin

N.A.: Not-available

Table 1 in this package really sets out, for the last ten years, Canadian exports to the United States, and imports from the United States, in the main categories reported by Statistics Canada. It is clear, I think, what the first section down the left-hand side is. The second section, "Crude Materials, Inedible," deals with materials that have not been processed, other than being taken out of the ground or cut down, as in the case of trees in our forests. "Fabricated Materials, Inedible," deals of course, with those materials that have been processed, but do not themselves represent end products which can be used either in manufacturing or in consumption. "End Products, Inedible," are all finished products except food products, which appear in the first category. The category designated as "Special Transactions—Trade", is really a catch-all that deals with such things as the extra packing for exported goods, contractors' equipment, and shipments of minor value. The trade balance is in the bottom section. These figures are provided on a customs valuation basis, and you have to be somewhat careful in looking at them because when they are translated into balance of payments terms they get amended in a number of ways.

Table 2 sets out the leading commodities in our exports to the U.S., and the list given here represents something in the order of 80 to 85 per cent of our total exports to the United States. These run in the same general sequence as the sequence of various categories mentioned in table 1; in other words, food, products, crude materials, and so on.

Table 3 represents the principal import items from the United States, and covers between 75 and 80 per cent of our total imports from that country.

Because of the particular importance of the automotive trade in our general trading with the United States, table 4 really sets out the pattern of activity in the auto sector over the 10-year period.

Table 5 is set out to demonstrate the relative place of the United States in our international trade patterns. In order to keep the table consistent, all the way through we have reported the United Kingdom separately, and dealt with the EEC as the EEC of the six. Of course, as you get into the latter years those two figures should be combined to show the part that the European Community plays in our trade.

Table 5 is exports.

Table 6 is imports.

Tables 7 and 8 are really presented to show our trade, excluding the trade in automotive products.

I think it is fair to make the comment that the auto trade is a specialized kind of trade, in the sense of the rationalization that has taken place in North America, and we thought it useful, therefore, to try to exclude automobiles from both our exports and imports in relation to our trade with the whole world, to show you what the pattern would look like without automobiles, because of the different character of that trade. This table shows, of course, that the share of the United States in that circumstance is a good deal lower than it is when automobiles are included, and it demonstrates, I think, a little more clearly, what the share of the third world is in our trade, for example.

Some of the charts that we have brought along this morning, Mr. Chairman, are really designed as demonstrations of some of the material that is supplied in the tables, but given in more detail.

The Chairman: You referred to the third world. You are really using the term "other countries", basically, as encompassing the third world.

Mr. Burns: Yes. It covers countries like Australia and New Zealand, but by and large all the industrialized nations are included in the specifically named countries.

The Chairman: Excuse me, Mr. Burns. I would just like to say something to the committee.

Honourable senators, is it agreed that these tables be included in the evidence, at this point?

Hon. Senators: Agreed.

Mr. Burns: Mr. Chairman, I have a few general comments to make on this material, if that is agreeable to you.

The Chairman: Certainly. Go ahead, Mr. Burns.

Mr. Burns: To set Canada-U.S. trade in perspective, it might be useful first to mention briefly some of the major developments which have affected Canadian foreign trade during the last 10 years.

The first half of this period, from 1965 to 1970, was characterized by rapid economic growth and trade expansion in the world under relatively stable monetary conditions. Canadian exports benefited in that period from the devaluation of the Canadian dollar in 1961 and the successful negotiation of the automotive agreement. As well, the Kennedy Round negotiations had a significant effect in liberalizing international trade.

The period since 1970 has witnessed profound changes. Deepening monetary problems, the American economic measures of 1971, sharply accelerated growth in the world in 1972 and 1973, subsequent shortages of raw materials and strengthening inflationary pressures, all had perceptible repercussions throughout the industrial world. The international economic situation was further aggravated by the energy crisis and the sudden increase in the international prices of energy related products. The ensuing serious recession in our major trading partner countries—particularly in the United States—had considerable influence on Canada's international trade.

The distribution of Canada's exports by leading buyer countries showed a strong shift towards the United States after 1965. The main impetus for that shift was the implementation of the Canada-U.S. automotive agreement in 1965. As a result, the United States share of Canadian exports rose from 56 per cent to 74 per cent between 1965 and 1967. In the five subsequent years the United States maintained its position between 65 per cent and 70 per cent of total Canadian exports. Since 1972, however, this trend seems to have been broken as Canadian trade with other countries intensified. The share of the European Economic Community, Japan and the third world in Canadian exports has begun to rise since that year.

Total Canadian domestic merchandise exports rose from \$8.7 billion in 1965 to \$32.4 billion in 1974. The sharpest increase took place in the two years preceding 1975 when exports jumped by some 60 per cent from \$19.7 billion in 1972 to \$32.4 billion in 1974. In volume terms, however, Canadian exports have grown only moderately in recent years and in fact have even declined in 1974 and so far in 1975. Indeed, the decline figures in '74 and '75 are of the order of 4 per cent and 8 per cent. In that regard, it is useful to note that the United States estimates are that in 1975 total imports by the United States in this year are expected to be down by about 14 per cent. The importance of foreign trade to the Canadian economy is, of course, almost unique among the industrialized countries. The relationship of our merchandise exports and imports to the gross national product was 23 per cent and 22 per cent respectively in 1974. By contrast, U.S. exports, although increasing substantially in importance in the last few years, currently account for only 7 per cent of the gross national product, while in Japan they represent 11 per cent.

The two-way merchandise trade between Canada and the U.S. totalled \$42 billion in 1974. The U.S. in that year accounted for 66½ per cent of all Canadian exports and 67½ per cent of total Canadian imports. The Canadian share of total U.S. imports represented about 22 per cent in 1974, while Canada took 20 per cent of total U.S. exports in the same year. In comparison, U.S. imports from Japan represented 12 per cent of total U.S. imports, while U.S. exports to Japan represented 11 per cent of total U.S. exports.

In the same year, the EEC's—and that is the enlarged EEC, including the United Kingdom—share in U.S. imports was 18.3 per cent and represented 21.8 per cent of U.S. exports.

Although Canada and the U.S. have been each other's largest trading partners, the U.S. market absorbs approximately one-quarter of all goods produced in Canada, while we buy less than 2 per cent of all U.S. goods production. When one looks at this in total terms, it is of interest to note that a large proportion of total trade moves on a duty-free basis. We have done some studies on this, and while it is difficult to do it in terms of Statistics Canada figures, because they are not related to tariff items, we have some material on trade on a tariff item basis. Based on the 1971 figures, we have calculated that approximately 70 per cent of Canadian exports to the United States enter that country free of duty, and the comparable figure for U.S. imports into Canada was 60 per cent. As far as Canadian exports are concerned, the principal items in the manufactured goods area were automobile products and defence goods moving under the defence sharing arrangement and a variety of fabricated and raw materials—lumber, wood pulp, newsprint, fish blocks, iron ore and a variety of other raw materials.

As shown in chart 1 before you, automotive, energy and forest products together account for about 60 per cent of our total exports to the United States. The United States is by far the largest export market for all our major commodity sectors with the exception of agriculture, though other countries are major buyers of certain commodities.

In the general categories reported by Statistics Canada, the U.S. share of our total trade is 23 per cent in the category of live animals, food, feed, beverages and tobacco; 65 per cent in crude materials; 66 per cent in fabricated materials; and 85 per cent in end products.

If one takes the last two categories together, fabricated materials and end products, and considers them to be manufactured products, then these make up 71 per cent of total Canadian exports to the United States. Without automotive products that share would be 61 per cent. In contrast, the same two categories of goods constitute only 23 per cent of our exports to Japan and 53 per cent to the enlarged Community.

The trade in automotive products is a very big factor in the total of our commercial relations with the United States, because the Automotive Products Trade Agreement of 1965 has had the effect of rationalizing and integrating the industry on a continental basis. Following that agreement exports of automotive products now represent 26 per cent of total Canadian exports to the United States, 37 per cent of all manufactured goods, and 70 per cent of end products, again as defined by Statistics Canada figures.

I think it is important in this context, when one is looking at the automotive agreement, to look not only at trade figures but also at the development of the industry in Canada and the United States in terms of trends in production and sales in the two markets taken together. In spite of the deficits that Canada has recorded in recent years, I think it is fair to say that the Canadian industry has performed well since the inception of the agreement in relation to the U.S. industry in terms of production, sales and employment.

Table 4 in the group of tables that were distributed shows total Canada-U.S. automotive trade from 1965 to the first six months of 1975. I should note that this table is not confined to trade which falls solely under the automotive agreement, but it also includes statistics for tires, tubes and replacement parts which are not covered by the agreement. However, these are minor in terms of the total figures as shown in the table.

In the last two years the continued strength of the Canadian market, as compared with that of the U.S., has resulted in very substantial increases in imports of automotive parts and a reduction in our exports to the United States.

Turning now to the end product area, excluding automobiles, these amount to approximately 15 per cent of our total exports to the United States. They cover a very wide range of products, from sophisticated electronic products needing a high-technology input to apparel and to a wide variety of consumer goods. In 1974, half of these exports were composed of farm machinery, aircraft components, industrial machinery, communications equipment and office accessories. The relative share of this category of end products in Canadian exports has held fairly constant in the last ten years despite the fact that automotive products and energy-related materials have gained dramatically in importance. Exports of end products, excluding automotive goods, actually increased five-fold in terms of value between 1965 and 1974, from about \$0.5 billion to \$2.5 billion. At the same time our total exports had increased between four and five times, so there has been a steady growth of those end products at the same rate as our total exports to the United States.

Under the Canada-United States Defence Production Sharing Arrangement, \$6.7 billion worth of goods have been exchanged between Canada and the United States between the beginning of the agreement in January, 1959 and September of this year. Canadian exports over that period have varied on an annual basis from about \$150

million to \$300 million. If one looks at the total of the activities since the defence sharing agreement was signed, a favourable trade balance has been recorded for Canada that amounted to \$319 million as of September of this year.

To look at some of the other categories of our exports to the United States, the value of Canadian exports of inedible crude materials to the United States amounted to over \$5 billion in 1974, more than double the level of only three years ago. This category of exports is dominated by petroleum and natural gas which constitute 80 per cent of the shipments in this category. As a result of the rapid price rise in these commodities, inedible crude materials now account for one-quarter of our exports to the United States.

The next category, inedible fabricated materials, are composed largely of forest products and metals, and represent 34 per cent of all Canadian exports to the United States. The leading products in this category are newsprint, wood pulp, lumber, nickel and other non-ferrous metals. These are products that are highly sensitive to the United States business cycle. The two-way agricultural trade between Canada and the United States amounted to over \$2 billion last year. While 23 per cent of all Canadian agricultural exports are directed to the United States, if one excludes wheat and coarse grains from our export figures, our exports to the United States account for about 50 per cent of our total exports in this category.

On the import side, United States sales are, of course, concentrated very much in the end-product sector, 71 per cent in 1974, followed by inedible fabricated materials, 17 per cent, and crude materials, a little less than 5 per cent. In the latter category of goods, crude materials, coal is the main item, valued at \$302 million in 1974, twice as high as that in 1971.

Other raw materials in their crude form in which Canada is dependent on United States supply are such products as phosphate rock and ferrous scrap. In the fabricated materials area, primary iron and steel and rolling mill products—over \$500 million—are the leading products in this area. In the end products category, industrial machinery is the dominant category, which made up 10 per cent of all merchandise imports into Canada from the United States in 1974.

From the end of World War II until 1968 Canada had continuous deficits in merchandise trade with the United States. In 1968 this trend was broken and Canada had surpluses with the United States until this year, when the trade balance shifted again into deficit. This year we will have a trade deficit with the United States, the first in the last 10 years, which can be estimated to reach between \$1 billion and \$2 billion, depending on how the figure is calculated. If one looks at it in terms of customs valuation figures as supplied in the trade of Canada series by Statistics Canada, the deficit will probably be nearly \$2 billion. If one looks at it in balance of payments terms, that deficit may be reduced very substantially, to slightly over \$1 billion. It is a very complicated issue as to how this deficit should be calculated, whether in customs valuation terms, which is the means by which Statistics Canada looks at the individual product categories, or in national accounts terms, in terms of our balance of payments figures. However, whatever that figure is, the deficit will amount to something between 5 per cent and 9 per cent of our total imports from the United States. It is interesting to note that in 1965, when we had a deficit of approximately \$1

billion, that represented the equivalent of 17 per cent of our total imports from the United States.

The Chairman: Will you be developing for us to distinction of that calculation later in your presentation?

Mr. Burns: Mr. Chairman, Mr. Wenaas can go into that in a little more detail, if that would be of interest to you. There should be adjustments made to the figures.

When one looks at the trade balance with the United States, there are increasing trade balances with the United States in the categories of inedible crude materials and in fabricated materials. In end products Canada has always had a substantial trade deficit with the United States. This gap widened considerably between 1970 and 1974, mostly as a result of growing deficits in the automotive trade. Besides the deficit in the automotive trade, the other substantial are is in terms of machinery and related equipment. This is mainly due to the substantial business capital outlays that have been made in Canada in recent years.

It is possible to graphically display the close relationship between Canadian imports of machinery and business investment in Canada over the years and with a rising curve in business investment machinery imports, particularly from the United States, rise rapidly. Because of the substantial decline in the overall United States economic activity last year and a relatively milder recession in Canada, Canadian domestic exports to the United States have risen only slightly, while Canadian imports continued to advance substantially.

Mr. Chairman, to sum up, the principal points regarding Canada-U.S. trade which can be made in a presentation such as this are as follows:

The United States is by far Canada's leading trade partner, although the share of the United States in total Canadian trade has fallen off by a few percentage points in the last year or two.

Senator Grosart: Is that, share of total trade?

Mr. Burns: Yes, sir. The next point is:

(b) In current terms, over two-thirds of this two-way trade moves on a duty-free basis;

(c) The United States is the largest Canadian market for up-graded materials and finished products;

(d) Canadian exports of end-products, including automobiles, have increased eight times in the 10-year period, while our total exports increased only about four times. End products, excluding automobiles, increased in about the same proportion as our total exports; and

(e) While the trade deficit this year will be large, in relative terms it is much smaller than in such years as 1965. In a number of important ways the deficit has been affected by United States economic conditions in regard to automobile parts, lumber, copper and by the relative strength of the Canadian economy, again automobiles, but also machinery and equipment.

Mr. Chairman, I know that you have limited time and I, perhaps, would stop at that point in terms of the general presentation.

The Chairman: Thank you very much, Mr. Burns. Have your confrères presentations of their own?

Mr. Burns: Mr. Fletcher has a presentation on the tourism side.

The Chairman: It would be the pleasure of the committee to complete the presentations before commencing questions, in view of the shortness of time.

Mr. T. R. G. Fletcher, Assistant Deputy Minister, Tourism, Department of Industry, Trade and Commerce: Mr. Chairman, I have some documentation here, if I may table it.

The Chairman: Yes, please.

Mr. Fletcher: I will describe it. There are statistical tables which are in a set by themselves, relating to travel. There is a document descriptive of the federal government's promotional efforts to bring visitors from the United States to Canada.

The Chairman: These will be accepted as tabled and will be made part of the record.

Senator Carter: Will all these documents be printed as an appendix?

Senator Grosart: We should look at them first.

The Chairman: Maybe we will look at them first.

Senator Grosart: Let us see whatever you regard as necessary to include in the record, in view of printing costs.

Mr. Fletcher: Mr. Chairman, if I may refer to the set of statistical tables, these incorporate a couple of charts. The statistical data itself is reproduction of material issued by Statistics Canada. The table marked "(1)" in the upper left corner relates to the volume and value of non-resident travellers entering Canada for a span of years since World War II.

The date in the detail provided are readily available up to 1972 only, and I have asked my staff to prepare similar data for 1973 and 1974 in consultation with Statistics Canada. This will be submitted, sir. I regret it is not readily available.

Table 1 therefore relates to non-resident travellers entering Canada, and it shows the flow from the United States and from all other countries by number of visits. I would simply explain that the word "visits" has to be taken very precisely. It does not mean anything more than it says. It could be one person making several visits. I will go into that later. These are border crossings, in other words.

That same table, in the centre column, shows the value to be placed on the spending by those visitors to Canada from the United States and from all other countries; and the columns at the extreme right show the average spending per person visit in terms of United States visitors and of visitors from all other countries taken as a group.

There has to be an explanation given, Mr. Chairman, in respect of the subdivision for the data on United States visits to Canada. Partly for statistical reasons of comparability, and partly for reasons of comparative importance, it is an international convention that you differentiate between those visitors who come for less than one day—because these often involve commuters, or excursionists, as the term goes—and visitors who stay for more than one night. The data for United States visitors is shown in that fashion. You will notice that by and large two-thirds of our visitors are one-day visitors & one-third only stay for more than one night. This has a relevance for our promotional efforts.

In the case of visitors from all other countries, it is presumed—since they have come from such a long distance—that they will stay more than one night. So their particular numbers are not subdivided.

Table 2 relates to the opposite flow. It signifies the number of Canadian travellers returning to Canada from travel abroad; and it is subdivided broadly into Canadians returning from the United States itself and Canadians returning from all other countries, whether direct or indirect.

In the data for Canadians returning from the United States, the figures are broken down by mode of transportation.

Table 3, sir, puts the whole thing into perspective from the standpoint of returning Canadian travellers—Canadian travellers returning from abroad. It shows the comparable date for table 1, which was United States visitors to Canada.

Table 4 is an indication of the balance on travel account within the international balance of payments. It is shown for the same span of years as the other tables. The left of the table is specific to the United States; the column headed "receipts" means what we in Canada received from spending by United States visitors to Canada; the column headed "payments" means what Canadians spent on travelling to the United States from Canada. Similarly the centre of that table is the data for overseas countries.

At the extreme right are the value totals for travel between Canada and the United States and between Canada and overseas countries, and there is shown a balance on the so-called travel account within the international balance of payments.

The two charts that follow—they are numbered 5 and 6—relate in the case of chart 5 to a visual representation of the course of Canada's spending on travel to the United States, and receipts from American visitors to Canada over the same span of years—that is, 1961 to 1975. Nineteen seventy-five, of course, is an estimate.

Chart 6, compares the importance of our travel income receipts from spending by U.S. visitors to Canada, with Canada's total travel income receipts from visits by persons from all countries including the United States.

Finally, sir, the last table, table 7, is simply an indication of the importance of international travel at the global plane—international travel globally—compared with international economic trade or exports. It is shown as a percentage.

If I may make just a couple of remarks. I will be quite brief. I do not intend to go into the detail of my paper on the promotion of travel from the United States to Canada, but I will highlight from it only, in the course of less than 10 minutes, if I may be permitted that period of time.

I think it is fitting to remark, in this setting, that the beginning of federal promotion of travel to Canada occurred in 1934 on the recommendation of the Senate. In that year, the Senate Committee on Tourist Traffic proposed, and the government accepted, that a bureau be established to assist in the promotion of the tourist business in Canada, and the so-called Canadian Travel Bureau came into existence. It was subsequently retitled Canadian Government Travel Bureau, and it was a precursor of the organization in the Department of Industry, Trade and Commerce which today is known as the Canadian Government Office of Tourism.

From inception, and for 30 years, the total effort of the Canadian Travel Bureau was to promote visits by U.S. residents to Canada. It was not until the decade of the 1960s, in preparation for our centenary, that the efforts of the Canadian Travel Bureau went beyond the United States and encompassed selected countries such as Great Britain and Europe, Mexico, Australia, and Japan.

Even in 1967, when our efforts were at a peak up to that time, 85 per cent of the promotional effort was still devoted to encouraging U.S. residents to come to Canada.

In 1970, when the federal travel bureau embarked upon encouraging Canadians to travel within their own country, one consideration was that by encouraging Canadians to think of Canada as one of their travel destination options we might be able to reduce the rate of growth apparent in Canadian travel expenditures abroad, particularly in travel to the United States. So there is an indirect relationship there.

Currently, this fiscal year—and I am speaking only in travel promotional terms—the Canadian government Office of Tourism is spending nearly \$16 million to encourage travel to and within Canada, of which \$12 million is spent in the United States travel market.

The amount spent in the selected additional seven priority markets—Britain, Europe, Mexico, Japan and Australia—is \$2 million, and \$2 million is spent to encourage Canadians to travel more at home. On that basis, 75 per cent of our current effort is still devoted to encouraging U.S. citizens to come to Canada.

In 1974, travel income earned by Canada—that is, the expenditures of non-resident visitors to our country—amounted to \$1.7 billion, or 5 per cent of our gross export trade to all countries. In terms of Canada-U.S. precisely, American spending on travel to Canada in 1974 amounted to \$1.3 billion of the \$1.7 billion gross from all visitor spending. In other words, 79 per cent of our travel income in 1974 was derived from United States traveller spending in Canada.

The Canadian balance of payments has featured a deficit balance on the travel account component for many years, as the charts indicate. In fact, in modern times only in our centenary year, 1967, did we have a favourable balance on the travel account in terms of the international balance of payments. However, if you examine that situation as shown in the charts, you will notice that from 1961 to the present, Canada has annually had a favourable balance on the travel account in terms of Canada-U.S. travel. Canada has averaged—and it is to be treated as an averaged figure—about \$150 million in earnings over and above Canadian travel expenditures to the United States per se.

Over the same period of time, however, Canada has always experienced a deficit on the travel account in terms of Canadian expenditures to overseas countries; that is, excluding the United States. Compared with the spending by visitors from overseas countries to Canada. The deficit on our travel account with overseas countries has always exceeded the surplus that we have had bilaterally with the United States.

In 1975, the preliminary data indicate that even our traditional surplus balance bilaterally with the United States is likely to vanish. There are many reasons for this. I would instance such things as the bicentennial celebrations in the United States that began in mid-1975, to con-

tinue for 18 months. Those celebrations are holding Americans at home. Other factors involved are the recession, inflation, and the energy situation. The energy situation, of course, has affected international travel the whole world over, and it is having a consequence on American visits to Canada, too.

We believe that the long-term prospects are buoyant for international travel generally from any part of the industrialized world, particularly to Canada, and buoyant for U.S. travel to Canada in the long haul.

Our conviction in this respect rests on the fact that there has been a continual increase in the level of incomes, levels of education; that there is a continuing increase in what the statisticians call "non-work time"; a continuing increase in urban congestion, which is not as apparent in Canada, and also the fact that the rate of inflation that we have been experiencing in Canada is less than the rate in many of the European markets which are, increasingly, sources of visits to Canada.

We think that all the pressures that led to the dramatic rise in international travel over the past 30 years will intensify in the future, and both the influences that encourage travel and the means by which travel may be accomplished will also increase. In the long haul, we view tourism as bringing increasing dollar foreign exchange earnings for Canada in terms of the United States-Canada relationship bilaterally, and in terms of the world at large.

The Chairman: Thank you, Mr. Fletcher.

Senator Macnaughton: Mr. Fletcher, are you assuming no bad effects from the energy crisis?

Mr. Fletcher: No, senator, I am not. The energy crisis first became apparent in terms of travel expenditures in the full 12 months of 1974—the energy crisis itself having begun in the autumn of 1973—so far as its impact on the cost of transportation was concerned and its consequent impact on economic difficulties. In 1974, as the statistics to follow will indicate, we suffered a diminution of almost two million visitors from the United States alone. On the other hand, we experienced an increase in volume of 10 per cent in terms of visitors from Western Europe, inclusive of Britain, and from Australia, Mexico and Japan. The difference was that in the United States the potential American traveller, who traditionally has used his car, was persuaded that there was an energy shortage and, for that reason, he should not drive, and that he might not find gasoline down the highway, so to speak. The loss in terms of U.S. visitors to Canada in 1974 was distinctively in the automobile visitors to Canada. We had a 5 per cent increase in American visitors coming by way of the public carrier.

That is a long explanation, senator. The quick answer to your question is that we have taken into account the energy situation.

Mr. Burns: That concludes the opening presentations, Mr. Chairman.

The Chairman: Honourable senators, we now have approximately 45 minutes left in which to put questions to the witnesses. I will ask Senator Grosart to lead off.

Senator Grosart: Mr. Burns, we have had the statement recently that over recent years we have been developing an increasingly high deficit on the exchange of what I call, for short, technological goods. I think Mr. Drury said on a

fairly recent occasion that the deficit had increased from \$1.5 billion to \$5 billion, up, I think, to 1972 or 1973.

Could you indicate the composition of the term technological goods—and services, I think—and give us an indication of the trend up to the present time, and perhaps any reasons for that trend.

Mr. Burns: I do not have a comprehensive definition of what we are talking about in terms of high technological goods. I would be glad to supply the committee with a definition of that, in consultation with others, including the Minister of Science and Technology, if that would be helpful.

Senator Grosart: Particularly the components. They do not appear to be broken down that way in Statistics Canada's published statistics.

Mr. Burns: That is correct, senator. I would assume, for example, that industrial machinery would be included, and I made some reference to industrial machinery earlier.

Senator Grosart: Yes.

Mr. Burns: There has been a growth in Canadian exports of industrial machinery, which is demonstrated in the tables, but that growth, really, has been overwhelmed, in Canada-U.S. trade figures, by the increases which have occurred in U.S. exports to Canada. From table 3 it will be seen that from a relatively level volume in the last years of the 'sixties and the first one or two years of the 'seventies, from an average of, I suppose, about \$1 billion, in 1974 it increased to \$2 billion. That is the item about fifth from the bottom of Table 3.

Senator Grosart: The non-farm machinery?

Mr. Burns: That is right. You see something fairly stable and then a sharp increase. I have asked that a chart be prepared to show Canadian business investment as an increasing curve over this period from the end of the 'sixties to the present time. The curve of our total imports of machinery show a very close co-relation to business investment when in chart form. That is certainly one of the important parts of what can be called technology goods, I think.

Senator Grosart: You said that the items in table 2 were related to, and in the same general order as, the general categories in table 1. Would you care to indicate where the break comes?

Mr. Burns: Food and beverages are the first two products in that list. The next three are "Crude materials, inedible," as they are so inelegantly called in the statistics. Fabricated materials run from aluminum to chemicals. The balance are the principal products in the end products category.

Senator Grosart: You mentioned a figure of two-thirds of imports or exports as being duty-free. Which was that?

Mr. Burns: I was basing this on 1971 figures, because that is the last year for which we have worked out the exports and imports on a tariff item basis, so that we can identify clearly where the patterns lie. Seventy per cent of our exports to the United States were duty-free in that year; 60 per cent of our imports from the United States were duty-free that year.

Senator Grosart: What do you mean by "duty-free"? Is this strictly tariff?

Mr. Burns: That is tariff-free.

Senator Grosart: It is not an estimate taking in the non-tariff barriers both ways?

Mr. Burns: No, that is restricted to examination of the customs tariff as it applies to each of the products.

Senator Grosart: What is the relative situation between the two countries in respect of non-tariff barriers? This comes up all the time. When you take these figures, are they real? Let me put it this way—and I am not asking a policy question, I am asking merely for facts: Would you say the non-tariff barriers, in total, in the United States are greater or less in percentage effect on imports than the Canadian? I say that because I have seen the statement that we have the highest industrial tariffs in the world.

Mr. Burns: You have asked two questions, senator. I will try to deal with both. On the non-tariff side, it is very difficult to put a quantitative handle on each of the non-tariff issues. For example, what is the impact of our respective government procurement regulations? What trade would flow if they were not there is really the question one has to try to answer, and that is very difficult to answer. I think it is fair to say from our perspective that the United States panoply of non-tariff measures is more of a barrier to Canadians than our panoply is to them. For example, I think it can be demonstrated that customs administration in the United States is a more complex and difficult area for Canadian exporters to work in than our customs administration is for American exporters.

Senator Grosart: Would you care to give us a rough list of the important non-tariff barriers that you find on either side?

Mr. Burns: I do not have in my head a comprehensive list, but I could certainly illustrate some of the main elements as far as the United States is concerned. Customs administration is certainly a pervasive problem. The DISC (Domestic International Sales Corporation) operation is conceived by us, and by most of the United States trading partners, as a substantial non-tariff barrier.

Senator Grosart: Perhaps I could stop you to ask a supplementary question. Has that proved to be as disadvantageous to our trade as we seemed to think it was when it first came out?

Mr. Burns: When this legislation was first introduced by the United States one could see that two effects might flow from it, or a combination of the two. The first was that American exporters would be able to reduce their prices by the extent to which they had tax deferrals. Secondly, their profitability would be higher than would otherwise be the case. I think the original concern was that the price effect would be more important than the second effect. As things have turned out in the United States, the second effect has been more important. I suppose it can be argued that the extent to which American exporters have a greater profitability than they otherwise would have is a disadvantage in terms of future investment, expansion, and so on. As I understand it, the price effect has not been the important result of that legislation.

Senator Grosart: Would you care to carry on with some of those components?

Mr. Burns: The government procurement side is another large area in the United States. As you are aware, they have legislated particular preferences for domestic producers in the United States. This has an impact that is somewhat greater, I think, than strictly the potential for sales by Canadians to government bodies in the United States, because I think it has had the effect of impressing on United States' industry, because of the easier ability, other things being equal, to buy domestically rather than internationally. It has quite a pervasive influence as well. Those would be the three important issues. Perhaps Mr. Kelly could add to that.

Mr. Charles Kelly, Western Hemisphere Division, International Public Relations, Department of Industry, Trade and Commerce: Canadian exporters have to meet the requirements of the Consumer Products Safety Commission in order to have a product that is saleable in the market and the laws administered by the Commission put a great onus on the exporter because in many cases the Canadian exporter is actually the importer of merchandise into the United States because of the way we do business. Under United States law he is responsible for the merchandise. Also, the regular importers of goods have to worry about all of these requirements, because under United States law they are responsible for what might happen to users of the merchandise such as with flammable or hazardous goods, and they may have problems with prosecutions if the goods do not meet standards or are found to be hazardous.

Senator Grosart: Mr. Chairman, I wonder if it would be too much to ask Mr. Burns for a paper on this. The table identifies 800 non-tariff barriers, and obviously they do not all apply here. I think it would be useful to the committee to have a paper indicating the ones that are matters of concern. This is something we will have to look at.

The Chairman: Just to add to what Senator Grosart has said, when we talk about free trade and trade, tariffs and manufactured goods and these non-tariff barriers, it would seem to me, would embrace the whole spectrum and catch things that are not manufactured, where there is no tariff. Is there anything that you could add showing the impact they may have on our raw materials and products, which supposedly have no tariff whatsoever? It may be helpful if it can be broken down in that fashion.

Mr. Burns: With the qualification that they are very hard to quantify, we would be glad to do that, Mr. Chairman.

The Chairman: Thank you.

Senator Carter: I have just one or two short questions. These figures, Mr. Burns, which you provided from your department are based on Canadian concepts, Canadian definition, et cetera. If this paper were being prepared by the United States Secretary of Commerce, would they be the same or would they be substantially different?

Mr. Burns: There is a question of trying to correlate U.S. and Canadian statistics. Indeed, there is an intergovernmental committee set up between Canada and the United States to try to find a consistent set of figures on both sides.

Traditionally, Senator Carter, exports are under valued and imports are over valued, on both sides of the border. That leads to a distortion in terms of the balances as perceived in Ottawa and Washington. There is a formally constituted intergovernmental committee struggling with

trying to remove that kind of distortion from the trade figures.

Senator Carter: I knew this started as a result of the controversy over the automotive pact. I was just wondering how much of this common definition has got into your figures, and also this distortion that you speak of, is it sufficiently great to produce a percentage change?

Mr. Burns: Might I ask Mr. Wenaas, who follows this more closely than I, to make a comment on that?

The Chairman: Yes, certainly.

Mr. C. T. Wenaas, Chief, Canada-United States Division, Macro-Economic Analysis Group, Department of Industry, Trade and Commerce: The Joint Canada-U.S. Committee on Reconciliation of Trade Statistics now comes out with a report annually, and not too long after the end of the year, to provide a set of reconciled figures.

The second point I would make is that Statistics Canada is including in its latest balance of payments adjustments some of the facts that they have learned in the reconciliation exercise. Therefore, Canada's trade figures on a balance of payments basis, comes closer to the U.S. figures.

The differences between the two sets of figures, that is, the trade balance obtained by using Canadian figures, and the trade balance using U.S. figures, changes from year to year. The difference is not more than \$1 billion currently. Although \$1 billion sounds like a great deal, it is relatively small in relation to total trade.

Senator Carter: Coming back to your Canada-U.S. trade, and the automotive products, I gather that the 1965 figures are those we have always used and not the reconciled figures, after adopting the common definition.

Mr. Burns: Yes.

Senator Carter: I do not believe that was done until approximately 1970, was it?

Mr. Burns: Yes, something of that order.

Senator Carter: The figures previous to that would be the old figures, and the figures following that would be more or less based on the new common definition?

Mr. Burns: Senator Carter, I have been told that these have been worked backwards. They are a common basis for the whole ten-year period.

Senator Carter: That is what I wanted to know. Apparently, the automotive pact was beneficial, as far as surplus was concerned, in only three years, 1970, 1971, 1972. In 1974 we were in a much worse position than we were in 1965, and we are heading that way again. Are there any factors, apart from the slowdown in the economy, producing this effect in the automotive trade industry?

Mr. Burns: Senator, if I might just comment on your first observation, if you look from 1965 to 1969, you will see that there was a growing improvement during all that period. It is fair to say there are only three years when it turned into a positive balance but there was a very sharp reduction in the trend, all through that period.

Senator Carter: That is right.

Mr. Burns: I must say that in our judgment of it this has been primarily a question of the relative strengths of the automobiles markets in the two countries. It is the rela-

tively poor economic performance of the automobile industry in the United States in the last year or two, as compared with Canada, which has produced the majority of this result.

Senator Croll: Could I ask a supplementary question?

The Chairman: Yes, Senator Croll.

Senator Croll: You are looking at table 4 and I had intended to ask a question in that regard. Would you take a look at "parts" and tell me if there is any reason why it should be so consistently bad in the trade balance? Are "parts" excluded under the agreement?

Mr. Burns: No, sir.

Senator Croll: Could you explain how we do so badly in "parts"?

Mr. Burns: May I ask one question of detail? Does this include replacement parts?

Mr. Kelly: "Automotive Products" include everything, not just the automotive agreement.

Mr. Burns: With reference to the statistical characteristics of this chart, Senator Croll, replacement parts are not included in the automotive agreement. The balance has been traditionally very much in favour of the United States in that field. The extent of the difference is seen from the 1974 figures, when there were \$3.9 billion of imports and \$1.9 billion of exports. That difference must be reduced to some extent by the volume of replacement parts. The trend, I suppose, in the automotive agreement has been more for assembly of cars in Canada for export to the United States, vehicles as a whole. If you look at our figures of export of cars, you will see that they have gone up very substantially; in other words, finished vehicles. That is the reverse pattern as compared with the "parts" side. There are, of course, always marketing problems in terms of parts but there is no legal disadvantage to Canadian parts producers selling in the United States.

Senator Croll: What are the Americans complaining about with reference to this agreement? There are some Congressmen who are constantly complaining. What bothers them?

Mr. Burns: There are a variety of things that have raised problems as far as Americans are concerned. One of the important issues is that Canada retains some safeguards in this whole area. There is a feeling among some Americans that we should eliminate those safeguards, and apply what would be known more usually as a traditional free trade arrangement, where there is nothing except an agreement on both sides to eliminate the customs tariffs.

Senator Carter: Mr. Chairman, I have one question on trade and one on tourism. First, did the Ontario rebate on cars produce any significant benefit with respect to the trade picture?

Senator Croll: It sold an awful lot more cars.

Senator Carter: That helped the United States, but what benefit did it produce for Canada?

Mr. Burns: Senator Carter, I do not have enough information in my head to reply to that question today. I will certainly be glad to respond to that later, if that is agreeable.

Senator Carter: Yes, because if we had evidence that it was either beneficial or harmful that would be of use to the committee.

With respect to tourism, you spoke about the Centennial and the big surge at that time. Do you anticipate that the Olympics will produce the same results in 1976?

Mr. Fletcher: On balance, no, sir. The Centennial program of activities and events was 12 months in duration. The Expo '67 international and universal exposition at Montreal was six months in duration at Montreal. The Olympic Games, in so far as the competitive side of the spectacle is concerned, is two weeks. The forecast that I have seen, and these are based on past experience with Olympic Games in other countries, are forecasts which have been prepared not by ourselves but by the City of Montreal and so forth. These forecasts indicate that the incremental number of visitors to the Montreal metropolitan area occasioned by the Games is likely to be in the magnitude of 450,000 to 500,000 persons. Some of these will be Canadian. In the context of the whole perspective that is less than 1 per cent of our total annual number of international visitors. What I think is more important than the specific effect of two weeks of competition in the Games is the international publicity which will accrue to Canada.

Senator Croll: If you get it done in time!

Mr. Fletcher: I was going to say that that is on the premise that it is favourable publicity. We are using the fact of the Olympic Games as an additional primary attraction for visitors to come to Canada—Canada as the home of the Games, which is a little different from saying, "Come to Canada for the Games," because the capacity is already virtually picked up in Montreal. There is not any more room for visitors to the Games themselves in their two weeks' period.

Senator Grosart: How would that compare with the Expo experience?

Mr. Fletcher: Well, sir, there were an additional five million U. S. visitors clocked into the Expo gates over six months compared with the previous similar period in 1966.

Senator Grosart: I mean the follow-through, the continuing effect of it.

Mr. Fletcher: Oh, well, the Centennial year, 1967, gave us an increased gross of something like \$470 million of travel earnings in the one year. We tapered off, understandably, in 1968 and 1969, but we passed the Expo year earnings in 1972 and we have never looked back. Currently we are at \$1.7 billion earnings in 1974, and the preliminary indication for 1975, including inflationary dollars, is that it will be \$1.85 billion this year.

Senator Macnaughton: Mr. Chairman, I have raced through the tourism report and I find it extremely interesting. It gives the answers to many, many of the questions: but I have two questions, just to open the issue up.

Mr. Fletcher, on page 11 you say that tourism in Canada is important to the national economy and that it is a major earner of foreign exchange. On page 12, foreign travel income ranked fourth in 1975, after motor vehicles and parts, petroleum and wheat.

Mr. Fletcher: Yes, sir.

Senator Macnaughton: If you are spending \$13 million, and you get a return of \$1 billion, that is a not a bad return on your investment.

Mr. Fletcher: No, sir. I would like to leave it at that, but in all honesty I have to admit that there are other forces at work beyond the Canadian government office of tourism.

Senator Macnaughton: Well, that has been the trend since you started, but on \$100,000 you get \$2 million.

Mr. Fletcher: I am afraid the rate of return is declining. That is an inexorable law.

Senator Macnaughton: If you are able to produce income at this rate, why do you not increase your budget?

Mr. Fletcher: The budget I have is not what I have asked for, but that could be said by any official who asks for resources at this time. We think we are putting money to good use at this moment, however.

Senator Macnaughton: I am sure you are. I think my second question is answered here. Why do we not go all out, as the Swiss do? Why do we not make sure the whole system is properly organized, and run, and checked, and that the quality of food and prices are controlled to a certain degree, or at least that the quality of food is improved, and do everything possible to make this country more attractive, just as the Swiss do? This big business.

Mr. Fletcher: This objective is recognized, sir, in the context of the division of responsibilities between the levels of government in Canada. The prices and the services available are a provincial responsibility. My office is working very closely with all of the provincial tourist administrations, however, and we are endeavouring to perform the role of a catalyst, to get them to do something more. There has been some progress, but it is not enough, I agree.

Senator Grosart: And there is a good deal of resistance to provincial legislation in that area.

Mr. Fletcher: It depends on what you are speaking of. For example, the national sanitation code has been endorsed and implemented as the minimum standard in all ten provinces, and this was done on a co-operative basis. That is one example. What we are working on right now is giving higher priority, through provincial governments that have responsibility for education, to vocational training and management training for tourism staff and tourism management.

Senator Macnaughton: I admit that the size of this country operates against complete efficiency, such as you might achieve in a small country like Switzerland, but I am sure you are casting your eye towards transportation and the quality, the speed and the comfort of it, whether it be in the form of trains, or planes, or buses, or anything else.

Mr. Fletcher: Yes. My office is working with a task force on the federal transportation policy established by the Minister of Transport.

Senator Macnaughton: All of this simply amounts to upgrading the services which you are selling. You get a better return if you give a better service.

Senator Grosart: Mr. Chairman, would it be possible for Mr. Burns to return? The Senate is about to sit, and I have a good many questions I would like to put.

Perhaps I could indicate the scope of these questions, as a kind of warning, or whatever it may be. I would like to hear, for example, about the state of some of the "why's" of the trade picture; the status of retaliatory measures; the relative effects of business investment in each country, including, of course, the subsidiary aspect; the state of the art of joint production and market sharing along the lines of the Auto Pact. I know there are some movements in that direction.

I would like to know if Mr. Burns knows of any such movements, and what the prospects are of their success.

I would like to know about the comparative state of allegations that industrial support programs in each country are, in effect, NTBs, and I would hope that you might be able to produce for us a comparative list of visible or stated irritants in the trade field between Canada and the United States. We have been looking for that in another committee, as well as in this one, for some time. It has been said that the Americans have given us, at some level, a list of their irritants, and I am wondering if we have given them a list of ours, or, if there is no official list, whether there might be a chance of your taking a shot at an unofficial one; because, after all, that is what this committee is going to have to address itself to in the trade field.

The Chairman: Thank you, Senator Grosart. I should just like to echo your remark that we will undoubtedly want to ask these witnesses to return because of the shortage of time today, and I can see from the way this hour and a half has gone by that it is going to take much more time to cover this subject in the depth we would wish.

I might follow what Senator Grosart has said by giving one or two thoughts on things I would like to discuss with you. We have hardly touched on processing definitions yet. You have very helpfully divided table 1 into crude materials, fabricated materials, products, et cetera. I notice there are in fabricated materials since 1974 such things as aluminum, asbestos, nickel, copper and other things which many people look upon as raw materials, and these accounted for \$7 billion of our exports to the United States, whereas all our so-called end products or manufactured goods were only \$1 billion higher than that.

The other thing relative to processing is the correlation between the degree of processing and the amount of the American tariff. Some of these would be very difficult to get on charts, but to the extent that it is possible I should like to have them. If I can give one example, as a Westerner concerned with this type of thing, our newsprint goes duty free into the United States, but as soon as we try to process it into fine paper, which we do not do, a tariff is immediately imposed. So we need to define these terms and refine these definitions very much as between newsprint and fine paper and the correlation of tariffs in that area. For example, at what point is nickel ore moved from a crude material to a processed product?

Senator Carter: While you are on that, Mr. Chairman, I was wondering whether there would be any difference of opinion between Canada and the United States on what is a fabricated product. Do they have different criteria?

The Chairman: Exactly, and of course the tariffs in most cases specify things in a very particular fashion in

this area. One other thing in the same area—and my western chauvinism will show here because we hear so much about the need for processing or else we should leave our resources in the ground because they represent money in the bank—I would be interested in knowing if you have figures on capital investment required per job in manufacturing industries as opposed to resource industries or fabricating industries and crude material industries. I know it is difficult because the question arises as to whether it is just the job in the mine, or the job in the transportation system to get the goods to market, so I know I am posing a difficult problem. But this is what this committee has set out to tackle, and we are going to have to do it.

The Auto Pact is such a huge subject that I must say that I think we will need to have a special meeting of the committee to deal with it as one subject matter. Earlier in your remarks you mentioned that we could have a difference of opinion between ourselves and the United States of between \$1 billion and \$2 billion customs evaluations of our trade balance, and I think such a 100 per cent variation would need to be developed for us. Those are just a few of the points that are in some of our minds.

Senator McElman: Mr. Chairman, I note that the deficit in the trade balance on tires and tubes between 1973 and 1974 jumped 650 to 700 per cent; that is, from \$24 million to \$154 million. Is there any play of DISC in this, or what is the explanation?

Mr. Burns: Senator, I will give you an answer, which I perhaps will need to qualify during the next seventeen times I will be here! I think it may be substantially influenced by the introduction of the radial tire into the automobile industry and, if my understanding is correct, the development of the productive capacity in Canada for radial tires has lagged behind the capacity in the United States. I believe, however, that that will be changed, so that is, in my opinion, a temporary aberration from the more normal two-day flow in the tires and tubes area.

However, again I would mention, that is not part of the automotive agreement; it is included because it is part of the automotive sector, but not within the agreement itself.

Senator Grosart: Mr. Burns, for your eighteenth time, perhaps you could clarify this business of the comparative tariffs. I know that we can show that, taking all products in import and export trade, our tariffs are reasonably low, but if we take only the dutiable items we get another picture.

Mr. Fletcher: Mr. Chairman, may I just mention that I have had sent it to me my tables amended by hand to include 1973 in all tables. The 1974 data is just not available.

The Chairman: Thank you very much. If you could leave them with us, we will distribute them. This study is not a "two-week wonder", so we will probably have the 1974 and 1975 figures from you before we conclude!

Mr. Burns: Yes. Senator, may I just say that I agree on that. My purpose in coming today was to attempt to lay the foundation for further discussion. We did consider trying to answer some of the questions you have posed; not all of them, I admit, but we felt that to really get the factual material on the table to begin with was probably very helpful.

The Chairman: Please do not misinterpret my remarks; you could not have done more than you have in the length of time that we have had and the point at which you started, laying the main tables before us first, will be invaluable. As we study those tables we can formulate our questions more precisely.

I see that we still have one of our guests from the House of Commons present. Do you have anything you wish to say, Mr. Trudel?

Mr. Trudel: No, thank you very much, Mr. Chairman.

The committee adjourned.

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